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Real Estate Bond Issues

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Points to Consider Before Purchasing Securities Based On Improved Properties. Over-Appraisals of Buildings Mainly for Purpose of Making Excessive Bond Issues. Unrestrained Lending Will Produce Surplus of Space. Safeguards Needed.

SIX or eight years ago at one of the annual meetings of the Real Estate Board of New York, I read a paper in which I advocated the issuance of real estate mortgage bonds by investment banking houses as a means of providing the necessary funds for the erection of buildings which the country so badly needed at that time.

I knew that this business had been done in a moderate way in other cities and, so far as I was able to judge, done on a fairly conservative basis. At the time I made this suggestion, money for the erection of large buildings and in fact buildings of any kind in New York was extremely scarce. The life insurance companies had not recaptured their breath from the results of Liberty Bond investments and nobody else seemed to have any money in large amounts to invest in any kind of real estate loans. Savings banks were in much the same condition, and were not making mortgage loans that were of material amount or at all helpful in producing what was very greatly needed at that time, and for two or three years later—buildings of all kinds, especially of those used for residence purposes, were not readily financed.

Days of High Rents

THERE had been bonds issued by some of the real estate bond houses which were readily absorbed and, because of the congestion in living quarters, rents were high, vacancies did not exist and any piece of real estate that was properly handled produced very high returns for its owners. It was therefore easy to obtain sufficient

income to pay the fixed charges on the property, including large amortizations, and a large profit to the owners.

As time passed on, loanable funds for real estate increased very rapidly in the hands of all investment houses, savings banks, life insurance companies, and in private hands. The building program of the entire country was greatly stimulated, both by the need for space of all descriptions and by the ease with which money was obtained. And while building costs were higher than ever known, it was the general belief that these costs were permanently higher, because of the great advance in labor and the cost of the materials which were produced by labor.

The buildings, therefore, that have been produced since 1920, have necessarily cost from 75 per cent to 100 per cent more than was normal in 1913 and 1914.

This made it very easy to obtain higher rents which were necessary because operating costs of all kinds were in many cases more than doubled.

The houses issuing real estate bonds, as viewed by the regular lenders, began to make loans that were excessive from every standpoint as appraised by conservative appraisers.

How Values Are Fixed

SO far as my experience goes the regular lenders in appraising property (and I speak from knowledge of the methods pursued by our company) reach a decision first as to the fair market value of the land, which is to be occupied by the new building. This value is decided by recent sales, both of unimproved and improved property, and

by the methods that a skilled appraiser will always use in valuing land for improvement.

The buildings are valued, based upon construction costs, with a reasonable allowance for overhead, carrying charges, architects fees, etc. These may differ in different cases. The construction cost of one fire-proof building, for instance, may be considerably more than another, because of a difference in arrangement, finish and those things necessary for the particular use to which it is to be put.

The experienced appraiser will consider all of these elements in reaching an opinion as to the value of the building. To this value of the building is added the value of the land, and upon this combined value, the savings bank, for instance, will lend not over the limit allowed by law—60 per cent of the appraised value. The life insurance companies of the State of New York, may not lend over two-thirds of the value of the property. In practice they do not lend over 60 per cent in some sections of the country and not exceeding 50 per cent in other sections.

What Experience Shows

THE experience of my office in this connection is, after a period of twenty years or more in this work, that our values of land and building are generally less than the builder claims his costs will be, but the fact that we are substantially right is confirmed by the fact that we lend very large sums of money for very many operations. In order that it may be understood that we have had experience in this matter, may I be permitted to state that in the year 1925,



Where Wall Street meets Broadway—the heart of the financial district. Some of the most valuable real estate in the world is located here.

our company made loans on city property of \$163,000,000 of which about 40 per cent was on dwelling properties and the balance on high-grade apartment houses, office buildings, hotels, department stores and loft buildings. The company's total investment at the end of 1925 in mortgages in the cities of this country and Canada were more than \$644,000,000 of which about \$350,000,000 is in the city of New York.

It would seem, therefore, that our experience in this matter has been sufficiently wide to justify the belief that the values we have placed upon property have been satisfactory to builders and they have been confirmed by the prices obtained by the builders for their buildings although frequently the prices obtained are less than our appraisals. In many cases the prices obtained were more than our appraisals.

We think, therefore, that our experience as appraisers of over twenty years would warrant us in believing that we are in a position to criticise very many of the appraisals produced by bond houses for the selling of bonds issued for sale to the public. We have checked up very many of the bond

issues that have been advertised so freely by these houses, and are unable to see how any well posted and conscientious appraiser could possibly reach the values fixed. We find that the values, as a rule, are $33\frac{1}{3}$ per cent to as much as 50 per cent above the values we are certain are right. There seems to be no doubt that the over-appraisal of buildings has been made mainly for the purpose of making excessive bond issue loans.

In this I refer particularly to loans of this kind made in the city of New York, on the island of Manhattan.

The Guaranteed Mortgages

I WANT it to be understood that I am not criticising the values placed upon real estate and the bonds or certificates issued by the mortgage guarantee companies in the city of New York, which companies are such a large factor in the lending of money in the city. These institutions have been guaranteeing mortgages and selling them to the public for many years, and without any loss whatever to the public and, I believe,

with losses to themselves so trifling that they are negligible.

They use the same general methods that I have described as governing the life insurance companies and savings banks in making real estate loans. They are experts in the business and they have in mind that their loans are to be sold guaranteed to the investing public, and that the capital and surplus of their companies are held responsible for these investments being sound.

And, incidentally, I believe that the majority of investors who desire to invest in mortgage bonds or certificates should be very careful not to buy unguaranteed bond issues or bonds issued by companies which do not frankly state that the bonds are guaranteed as to principal and interest; and who do not reveal what are the capital and liabilities of their companies, and show that the appraisals have been made by men especially skilled in this work.

If this cautious method is not pursued, then there should be some regulation that bond issues to be offered to the public should have it definitely stated that the values of the properties have been appraised by responsible appraisal organizations appointed for the purpose, or by men whose reputation as careful and competent appraisers in the community, acting together as a committee jointly and severally state their opinion as to values, and that such statements and appraisals should be sworn to, as is customary in very many of the cities of the country and Canada.

Appraisals by Experts Needed

THERE are in nearly every city of importance active Real Estate Boards which have among their memberships, men of standing and judgment, who should be appointed as appraisal committees for the appraisal of real estate offered as security for any bond issue that is to be sold to the public without guarantee. If a bond selling organization desires to sell its bonds to the public with a guarantee, it should be obliged to state what are the net assets behind the guarantee.

It is true that the investor, who buys the bonds of railroads, public utilities and other similar corporations, does not have a guarantee that the principal and interest will be met. He has to take his own chances that the bonds will be paid, but he generally has as a guide the prices obtained for these issues on the stock exchanges of the country. The average investor is willing to depend upon the prices obtained on the stock exchanges for the reason that all of the issues, before being listed, are passed on by a department of the state or nation, which in effect does give assurance, more or less substantial, as to the value of the securities. To have their stocks or bonds sold on the stock exchanges of the country they must file complete financial statements with the exchanges before their securities may be dealt in.

The fact that these securities are dealt in on the exchange at certain prices is a further evidence that investors of knowledge and experience in such matters consider these securities to be worth the price paid, or substantially so, and the further assurance that every corporation which issues securities dealt in on the exchanges must



The billion dollar skyline of lower Manhattan, viewed from the Jersey shore

annually or more frequently make a financial statement to the state or governmental authorities as to their assets, liabilities, their business for the year, and the profits or losses made or sustained.

None of the bond houses real estate issues have any such safeguard. They are not obliged to report to any governmental agency. Few of them make any financial statements. This being the case, there must be some other method of satisfying the public that these investments are sound, and the plans above suggested may help in large measure to bring this information to the attention of the investing public.

Unrestrained Lending in Metropolitan District

I DESIRE to refer now to the conditions that have been brought about by the lending of money on the island of Manhattan and in the city of New York, by bond houses and others of unlimited funds to produce apparently an unlimited amount of space of various kinds.

Manhattan Island is the most important aggregation of real estate that exists in the world. It is the most highly improved for the reason that the people of New York who live there, or who do business there, require the highest standards of buildings, with the highest standard of conveniences and luxury, both in business and in home life and will be satisfied with nothing less than the best.

The congestion and high rents that have existed for several years caused by the shortage of supply of all kinds of building space have been very greatly relieved, and about one year ago, the supply quite equalled the demand for some classes and greatly exceeded the demand for loft space. What was produced of space in Manhattan Island in 1925, of loft buildings, apartment houses and to some extent office buildings, has been more than enough to satisfy the existing demand.

A further moderate building program for the year 1926 would have possibly been justified. It is dangerous to over-produce anything, but the buildings that have already been started to be finished in 1926 of all kinds of high-grade properties, in my opinion, provide an amount of space many times greater than can possibly be absorbed in the year 1926—and possibly in 1927—if nothing

else was projected than what is already underway, but there has been no restraining influence of any kind exerted and none can be exerted that will be effective unless the public declines to further invest in bonds of this kind.

So long as space was scarce, buildings fully rented, with rents at the peak, the buildings with excessive loans could be carried to meet their obligations as they matured and to pay a profit to the owner, but to do this it required that all these elements should be favorable.

When Rents Decline

AS soon as there is a considerable surplus of space, such as now exists, rents are certain to decline, buildings are certain not to be well filled and serious times will very surely and quickly come to over-mortgaged properties.

The mortgage guarantee companies will, of course, take care of their obligations, for their loans are not excessive, and the public will not lose, but from these companies the investor will not obtain as high a rate of coupon interest as from the less conservative issues.

Some of the real estate bond houses, while they do not distinctly guarantee their issues, in self-defense would be obliged to take them up if trouble came, and undoubtedly will do so in many cases so long as they are financially able, but the danger lies in the fact that they have overloaned; the obligations are heavier, diminishing rents and heavy vacancy will cause trouble to come more quickly; there will be a greater amount of bonds to meet, and the burden may be so heavy that many can not care for all that are necessary.

Investment Recommendations

MY recommendations therefore are:

That the unskilled investor, who desires to buy real estate bonds, should be satisfied with a slightly lower interest rate and obtain the guarantee of the payment of principal and interest from mortgage guarantee companies organized by law for the purpose, and which are under state supervision; which have sufficient capital to make good their guarantees, and which are known to be managed by men skilled in their work and successful in their operations and whose loans are conservative:

Or he should buy from companies that distinctly guarantee the payment of principal and interest although not organized as mortgage guarantee companies, but which are willing to state under oath, and after examination by public accountants, the amounts of their assets and liabilities and what they consist of, and who produce sworn appraisals of expert appraisal committees for all bond issues offered:

Or if he is willing to invest in unguaranteed mortgages, the property on which the bonds are based should be appraised by a competent board of appraisers, appointed by the real estate boards in the cities where such boards exist, and the statement should be made that the bond issues do not exceed two-thirds of the appraised value of the property. Companies which advertise that their bonds are legal investment for trust funds should be obliged to produce evidence beyond question that such is the case, and some state authority should have the power to force statement of values or prevent such advertising being printed.

Some of the bond houses have arranged with strong surety companies to guarantee the payment of principal and interest of their issues and next to buying from the regular mortgage guarantee companies, I suggest this method as a safe one to follow, for the reason that the surety companies will not guarantee loans of all of the issuing houses and, when they do guarantee such issues, it is only after careful investigation made by these surety companies through skilled examiners. I consider their guarantees as abundantly good for anything they undertake.

Record Financing

NEARLY \$1,500,000,000 in new money was obtained by the public utility industry of the United States during 1925 from the sale of securities to employees, customers and the general public. For the fifth consecutive year, the utilities led all other industries in the amount of money raised from security issues.

The total for the past year was a record breaker. It represents about three times as much financing as took place in 1921.

During the period 1921 through 1925, the public utilities obtained a total of \$4,927,000,000 for their program of betterments and extensions.

The Service Charge in Country Banks

By F. S. WETTACK

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Among Its Merits Are Increased Revenues, Less Bookkeeping, a Saving of the Time and Energy of Tellers, Elimination of the Overdraft Evil and Reduction in the Messenger Service. Service Charge Raises the Bank in the Estimation of the Community.

THE service charge upon small checking accounts in country banks is of very recent origin. As short a time as two years ago, the discussion of the subject partook more of the nature of a forecast rather than on the results of actual experience of country banks. The plan owed its birth to the persistent search for means of lessening the operating expenses of banks. The discussion refers more essentially to conditions in towns of 5000 to 15,000 population. City banks, by a more effective cooperation through a clearing house, and by reason of less intimate personal relations with their customers, can more easily effect changes in established banking policies. The service charge has been no exception to this rule; hence, country banks as a rule hesitated to install the system. Country banks in sufficient numbers have now had considerable experience with the plan. What it has accomplished can be pointed out definitely.

After many city banks had adopted the plan, it was urged by many country bankers that the plan was not practicable for country banks. It was alleged that—

(1) It would lessen the number of contacts the bank enjoyed with the people of its community.

(2) It would make more difficult the effort of banks to overcome the misunderstanding which many people of small communities entertain with regard to a bank's functions.

(3) It would result in endless friction by reason of the fact that the owners of the small active checking accounts—wholly unprofitable to the bank—had connections with many of the bank's profitable accounts.

(4) It would be a reversal of a strongly emphasized policy of many years' standing, whereby banks had spent large amounts of money in advertising and soliciting these small accounts.

Only Those Who Have Not Tried

TO many country bankers the above objections seem well grounded. The plan, however, was pioneered by a few banks in nearly every state. The results were so satisfactory that other banks adopted the service charge. The merits of the charge, as revealed by actual experience, may now be recounted. The defects outlined above still persist only in the minds of those who

have not used the plan. No bank which has given the plan a fair trial has ever reverted to the non-charge plan. The general feeling, among country banks which have used the service charge, is that the scope of the charge should be enlarged so as to include all unprofitable accounts. There is some difference as to the basis on which the plan should operate. Many bankers pronounce the service charge one of the greatest forward steps made in banking in recent years. Not only is it successful in the respects claimed for it, but it has been definitely shown that it lays the foundation for effective cooperation between the banks of a town, in other matters of mutual interest.

Where the business foundation of a community is largely agricultural, the service charge is not so essential. Under such conditions it has, however, proved its merits. The plan has more special application to communities having an industrial character,

where large numbers of employed people maintain small and very active checking accounts. In such communities the favorable results have exceeded the fondest hopes of the advocates of the plan.

The merits of the service charge, increasing from the least to the greatest value, may be outlined as follows:

(1) It has been instrumental, after the readjustment has taken place, in providing a direct revenue of from \$50 to \$125 per month. The service charge is not intended to provide a profit to the bank, and as a revenue producer is entitled to only minor consideration.

(2) The amount of bookkeeping is lessened in a striking manner. The number of accounts on the checking ledger will usually show a decrease of one-third to one-fourth.

(3) No perceptible decrease in deposits will result, for the reason that the experience of banks shows that the average balance in the accounts closed, due to the service charge, does not exceed \$10 per account.

(4) A vast saving in the nervous and physical energy previously expended by tellers and bookkeepers, in keeping up with the balances in small accounts.

(5) Dispenses with from one to two bookkeepers, and a marked increase in the efficiency of the remaining force.

(6) Practical elimination of the overdraft evil.

(7) A marked saving of time in practically eliminating the messenger service previously required in returning insufficient fund checks.

The Best Advantage

FAR outranking the above advantages, is the educational value of the service charge in, promptly, and in a dignified way, conveying to a large number of people some adequate and accurate conception of what the real value of their small active checking accounts is to the bank. Through the force of many years' high pressure advertising for small accounts—frequently carried on by the bank in a costly way—many persons in the community entertained a highly exaggerated esteem of the consideration to which a small checking account entitled them. Through the service charge such persons have been quietly but effectively disciplined.

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Arbitrage—Split-Second Banking

By REUBEN A. LEWIS, JR.

How the Wholesalers in Foreign Money Keep Exchange Rates at Equal Values by Buying in Cheapest World Market and Selling in Highest. Fraction of Second Means Success or Failure. Post War Conditions in Arbitrage Different, Based on Tendencies.

THIS is a story of split-second banking, with lightning calculations and flash judgments. For speed is the essence of arbitrage—buying money in the cheapest world money market and selling it in the dearest.

As a rule the success of an operation depends upon a fraction of a second. To get this advantage, the big dealers in the international money centers have developed what is probably the most perfect and swiftest intelligence system in all banking. The slightest change in the value of the pound, franc, mark, guilder, lire, Swiss franc or yen in any of the exchange centers, or the news of an event that will send one of the currencies up or down, is hurtled from continent to continent with the utmost speed.

For while it is not possible for any mortal to be in more than one place at any given time, a successful arbitrageur must know what is going on in every important money center at the same time.

Cables Are Indispensable

TO enable him to know what the exchange rates are in London, Paris, Berlin, Amsterdam and Zurich, a steady stream of cable messages pours in, quoting the merest change in the selling or buying rate and describing the tendency of the moment. It costs thousands of dollars in cable tolls to obtain this information but when there is the slightest disparity between New York and foreign rates the dealers—which are the largest banks in New York—transmit orders with the utmost dispatch to buy in one market and sell in the other to take advantage of these momentary advantages.

For instance, suppose the cable reported that dollars were freely offered in London, that is to say that pounds sterling were in demand at, say, \$4.85 and could be bought in Berlin against dollars at \$4.84—although it would be ridiculous to fancy such a fantastic spread in exchange—the trader would cable an order to buy sterling in Berlin at the lower price and a selling order to London at the dearer figure. On each pound he would make a profit of 1 cent. These transactions run into huge figures—the orders being limited only by the amount of money that the trader thinks can be easily absorbed without upsetting the exchange market.

The object of arbitrage is to equalize the ruling rates in the money centers and, in doing so, the dealers naturally endeavor to profit thereby. It is the means that the wholesalers in foreign money have of keeping exchange rates at equal values so as to

stabilize as far as possible the prices of foreign currencies and thus enable importers and exporters of various countries to conduct their business with minimum risk. The element of time, however, is the factor that keeps rates from being identical in the various centers.

High Speed Communication

WITH success hinging on a fraction of a second, the whole operation is geared up on a basis of speed. While the time elapsing in the clearing of individual cables varies as the lines are free or congested with traffic, a cable message has been sent from a dealer's office in New York to London and a response received in 90 seconds. A cable to Paris may take not more than a minute. The news of a change in rates in London has been relayed to important cities in Germany through New York in less time than direct communication from England to Germany required.

Arbitrage with Italy is one of the post-war developments for Italy is now connected with New York by a direct cable although this service is not yet at its best for it frequently takes an hour to send an urgent message. Cables from the Far East—it may be observed humorously—are received before they are sent—if reckoned solely by the hands of the clock.

Keen competition exists between the cable companies for this valued business. This tends to bring the two continents ever closer and closer together from the standpoint of time for it is truly a case where the traffic goes to the swiftest, and there is a constant striving for new records in transmission.

Capitalizing the Seconds

TWO sidelights will show how great is the mania for speed in this interesting phase of banking. For convenience in cabling, fractions are decimalized so that if the pound were quoted at 4.84 7/16 the cable would read 48443. However, recently cables have been dispatched with the fractions first so the time that it takes to read the vital part of the message may be saved.

The cost of maintaining a direct cable would be prohibitive even for the richest banks so they make the next best arrangement. A telegraph wire is run from their office to the cable office where the cable ends and on this "pony" circuit the messages are transmitted almost instantaneously. To cut the delays down to a minimum, the banks seek to have the end of the pony wire placed right at the end of the trans-Atlantic cables. There was not room for more than a limited number of keys at this vantage point

—so the others had to be stationed about from 50 to 150 feet farther away.

A glimpse inside the small chamber where the split-second operations are conducted indicates the high tension under which the arbitrageur works and the various angles that enter into the decisions.

The arbitrage room of one of the large banks located within the shadow of Wall Street, looks like a telephone exchange and a broker's office, combined. Six traders, with headphones clasped to their ears, sit around a huge and specially manufactured switchboard. Each specializes in certain currencies. A network of direct wires radiates from each trader's keyboard to the offices of the principal exchange brokers, who are in constant communication throughout the period of activity. The traders also are connected through the same switchboard by trunk lines that lead to their commercial clients. When the broker calls the trader to quote current rates or to submit his bids and offers, a white signal light flashes. During the hours of the briskest trading, the switchboard is ablaze with lights.

The trader can talk to only one broker at a time but a special device on the switchboard enables him to hold calls on the line until he is free to answer the phone, a green light indicating each waiting call. These are answered in the order they are received. There is not a bell in the room but news tickers stutter away in their staccato style, reporting events that may have an effect on the market, a telegraph operator rattles along sending and receiving orders from the Middle West and other important centers in the hinterland, for pounds, francs, marks and other currencies. The room has a sound proof ceiling, a padded floor and walls hung with denim to reduce the racket to the minimum.

The Chief Trader

IN the center of the traders, the chief trader sits. In front of him is a Swiss calculating machine that converts in a flash by the slide rule principle the foreign exchange rates into New York terms. An American calculating machine is just to its right. But the chief trader will tell you that most of the decisions are arrived at through mental processes that have been developed to do the same work as the calculating machines but even more swiftly.

The marvel of it all is that any group of mortals could work in such babel and seeming confusion, under such a continuing strain and reach decisions that are sane, accurate and logical. At the same time, rec-

ords must be kept of every transaction so that no error can slip through, for every operation is time-clocked.

Arbitrage would be a simple operation if there were nothing more to it than buying exchange in one money center and selling it in another. Actually it is much more involved. Sometimes it is necessary in transferring funds to send them through two or more centers, for there are three-point, four-point and even more complicated forms of arbitrage transactions. It might, for example, be profitable for a New York trader to buy French francs with his dollars, invest the francs in Dutch guilders, obtain sterling with the guilders and finally sell the sterling in New York, thus bringing home again the original dollars that fared forth on this financial journey. Such a transaction would pay if more dollars resulted from the final sale of sterling than was first invested in francs.

These roundabout courses are pursued daily because there are momentary variations in the costs of the same currencies in the different markets.

The basis of the entire exchange business is the settlement of trade balances, growing out of the purchase and sale of merchandise and raw materials between different countries. American manufacturers are buying materials throughout the world and, while the dollar has become more widely acceptable in foreign trade than ever before, it is still necessary to have sterling and other currencies to complete the transactions.

Little does the average man think, when he drives his car out of the garage in the morning, that the rubber in the tires came thousands of miles from the Far East; even less is he concerned with the knowledge that the rubber was paid for in London with sterling that the tire manufacturer bought in New York. Silk from Japan, nitrate from Chile, jute from India, diamonds from Africa, platinum from Russia, pulp from Sweden, spices from Java—it is more or less the same story.

Post-War Arbitraging Different

THE character of arbitraging and exchange operations have changed considerably since the war, due to the fact that currencies are less stable than they were.

In actual practice, the dealers in exchange have to be guided to a great extent by momentary tendencies of rates which they determine from actual operations and quotations. In pre-war days, there were moderate seasonal movements of rates but now the cycle is shorter and the fluctuations are greater. In the fall—before the war—dollars were in demand in European countries because they had to pay for the cotton, wheat and other agricultural produce purchased from America. In the spring, Continental exchanges were in greater demand because the American banks had to provide pounds, francs and marks for the great legion of tourists who were embarking for stays abroad. Then, too, other movements of trade naturally had their effect on foreign exchange but the variation in rates was slight compared to the big swings that have occurred in the French, Scandinavian and Spanish exchanges even recently.

This condition has led to operations based

more and more on tendencies. The wholesalers of money properly are experts in exchange and must judge how events will tend to influence the movements in the rates.

During these times of comparatively unsettled conditions, orders have often to be executed in anticipation of future developments. This requires the greatest skill and discretion—for if a dealer buys exchange for a customer and then there is a decline in the rates, the customer will be inclined to think that he should have got the advantage of the lower quotations.

24-Hour Banking

ANOTHER modern tendency of exchange is to become more and more a twenty-four-hour-a-day banking operation.

Due to the difference in time between New York and London, the two principal centers, the London market makes the traders in America get up before the break of dawn and keeps the English dealers at their offices far into the night, trying to eke profits out of this fascinating game. The London market opens at nine o'clock. It is then slightly more than four o'clock in the morning in New York. The Englishman, who wants to profit from the closing rates at New York, has to stick at his post until after Big Ben, the famous old clock in the towers of Parliament, has struck ten o'clock.

By following the sun it would be possible for a trader to place orders in San Francisco several hours after the New York market closes. Later dollars could be traded for yen and tael in the Far Eastern centers at Kobe and Hong Kong. From there, the operations at some future day might shift to the important Indian centers at Bombay or Calcutta, and on to Genoa, Barcelona, Paris and London. In the opinion of exchange experts, the trend will be along these lines until that day of the millennium comes when all nations will have a single universal system of currency.

As the world settles down to normalcy and former relations are restored, the sphere of arbitrage doubtless will be broadened to dealing in stocks and bonds that are listed on the principal stock exchanges and bourses of the world. Before the war, London used to traffic in "Yankee rails"—American railroad securities—to a considerable extent. During the first trading hour on the New York Exchange both the British and American securities marts are in action. It is a virtual impossibility that the movements of the same stocks on the two exchanges should be uniform. There are bound to be opportunities for profits for the operator who can buy securities in one market and sell them simultaneously at a higher price.

Of course, there are expenses to be considered—cable toll, brokerage and other charges—but, nevertheless, the profits may amount to more than enough to pay for the services.

As yet, arbitrage in securities has not been revived to any considerable extent. It is one of the anticipated developments, however.

Because only the largest dealers in exchange engage in arbitrage and the units in foreign exchange transactions are so great, it might be assumed that the earnings from the operations would run into

a long string of digits. While the turnover in foreign exchange amounts to thousands of millions of dollars annually it is an open secret that the profits are expressed in mills rather than in per cents. Arbitrage is, of course, merely a side operation in foreign exchange dealings for it is the means by which rates of exchange between countries are kept in line with one another. It is the leveler of rates that thus reduces the risks of foreign trade and makes more possible the vast interchange of commodities between the nations of the world.

Service Charge

(Continued from page 540)

for they have learned that the value of a small active checking account is very largely in the customer's favor, and not in the bank's. The charge has been an effective step in raising the esteem of the banks to the level which they should properly enjoy. With the charge there comes increased confidence in the bank. Free service in any line is not appreciated, and banking has been no exception to the rule. There has existed a highly distorted idea of the free service which a bank should render. The service charge has corrected the perspective of many communities in this regard.

In working out the details of the service charge, it will be found that some banks charge on the average balance and some on the minimum balance. The minimum balance will provide greater revenue, but as revenue is not the chief object of the charge, it is believed that the plan of charging on the average balance is more practicable as a basis for a country bank.

Some banks have exempted from the charge checking accounts where another member of the family carried an account not subject to the charge. Other banks have made exceptions where the owner of the checking account had a savings account or a certificate of deposit. The reason for the latter exception is not well founded. The plan most generally indorsed is to make no exceptions.

Banks have followed different plans in giving publicity to the installation of the service charge. The plan which seems to be most favorably commended, is to announce the service charge in a letter mailed at least one month in advance of the time when the charge becomes effective. The letter should recite the resolution of the associated banks, naming the banks and bringing home the fact that all the banks in the town are parties to the plan. The letter should clearly explain the term "minimum balance" or "average balance," so that either term can be comprehended by one unfamiliar with banking parlance. The letter should also state that the charge is not effective against accounts to which no checks are charged in the month. It should also make it clear that savings accounts are not subject to the charge. A thorough understanding will minimize the friction. Most of the terrors of the service charge when it is installed are due to a lack of understanding of its exact terms. Announcement by letter, rather than through newspaper advertisements, minimizes the discussion of the plan by the street corner, barber shop and pool hall financiers, common to every community.

American Dollars at Work Abroad

GROSVENOR JONES

Lowers the Rate of Interest and Helps the German Business Man. Many Engineering Enterprises Which Contribute to the Health, Happiness and Earning Power of Foreigners are Being Carried Out by American Firms. American Dollars as the Base.

IF money talks, the American dollar must be the best known currency in the world today. More currencies may be based on the British pound and sterling may still be used to a greater extent in international trade financing but the dollar speaks a universal language that is readily understood in the farthest parts of the globe. This is said in no spirit of boasting, for the eagle is supposed to do enough screaming without calling upon its imprint on our gold pieces to swell the chorus. Rather is it my purpose to show that American dollars are doing constructive work in various foreign lands. My words are addressed to an American audience and not to foreign ears, and for quite another purpose than that of gloating over our good fortune.

The rank and file of the American people little realize the financial strength of the country nor do many sense the responsibilities which this wealth entails upon the nation. Whether or not we formally recognize any such responsibility, the fact remains that such recognition is being given in actual daily experience and in ways that the man in the street knows little about.

Set a Wholesome Example

TO start at the beginning, mention must be made of the fact that by adhering rigidly to the gold standard the United States has given the dollar a prestige rivaled only by that which the British pound has long enjoyed. In the midst of the widespread currency inflation following the War and despite the arguments for "managed" currencies and other substitutes for sound money, this country rendered a signal service by standing firm for a currency based on gold. There was no altruism in this, to be sure, just as there was no idea of altruism in the stand taken by the leaders of British finance in drafting the Cunliffe Commission report which recommended the return of the pound to a gold basis. But the example set was wholesome. The dollar spoke to good purpose.

Fortunately, our faith has been accompanied by works. In arranging large credits for the direct purpose of exchange stabilization for a number of countries the United States has done much to bring other currencies back to the gold basis. In the aggregate, credits of at least three-quarters of a billion dollars have been arranged at various times for assistance in exchange stabilization. Mention might be made of the credit of \$300,000,000 for the Bank of England and the British Treasury which was extended by a group of bankers headed

by J. P. Morgan & Co. and by the Federal Reserve Bank of New York. Doubtless none of this credit has ever been used or will ever be drawn upon but the fact that it is available has been most helpful. Then there was the credit of \$100,000,000 for the Bank of France in the spring of 1924 and the credit of \$50,000,000 for the three Italian banks of issue last year, both these credits rendering effective service in staying the decline of the franc and the lira, respectively. Credits of about \$50,000,000 have been granted to the National Bank of Belgium, with a promise of more; of at least \$40,000,000 to the National Bank of Denmark; of \$10,000,000 each to Czechoslovakia, Finland and Poland; and of varying amounts to other countries.

The One Big Gold Export

TO this total should be added our share—\$110,000,000—of the international loan for Germany under the Dawes Plan, since this loan made possible the reorganization of the Reichsbank on a sound basis. Incidentally it might be said that of all the credits and loans for currency stabilization the German loan is the only one that has resulted in the export of any considerable amount of gold from this country. Our participation in the international loans for the rehabilitation of the public finances of Austria and Hungary helped to stabilize the currencies of those countries, the shares taken here being \$25,000,000 and \$9,000,000 respectively.

The \$25,000,000 credit for the Gold Discount Bank of Germany arranged by the International Acceptance Bank of New York as the head of an American banking group should also be noted. Only part of this was actually used, but it was most helpful to Germany at a critical time—perhaps as much from the standpoint of moral support as from a purely dollar-and-cents basis.

The dollar is playing another new role in international finance, of which little has been heard. I refer to the transfer of American short-term funds to foreign money markets in response to higher levels of interest rates in those markets—such transfers are made for profit, of course, but they are none the less effective in bringing down money rates abroad. The placement of American bankers' balances in the London money market to the extent of from \$200,000,000 to \$500,000,000 last winter and spring was an important factor in the rise of sterling exchange.

Another international role for the dollar is the purchases by American bank-

ers of German "domiciled" bills, which are acceptances or discounts by German bankers of drafts drawn by German corporations and firms. In other words, scores of American institutions have acted as banks of rediscount for foreign commercial paper in which American foreign trade has no interest. American holdings of "domiciled" bills have at times reached big figures. In this new way, also, American dollars have been at work abroad—at a profit, of course, but to the benefit of German industry and trade which have had the advantages of lower interest charges here.

It would be interesting to describe in detail these new international roles of the New York money market with the dollar playing the lead. But at present attention is directed particularly to other work that the dollar is now doing. I refer particularly to the many engineering enterprises abroad which American loans and credits are making possible.

Some of our leading citizens have objected to the fact that in making foreign loans our bankers have not insisted upon the proceeds of the loans being spent in this country. This point has been urged particularly in the case of loans made for public works, railroads, etc. However, American engineering firms have been and are doing a vast amount of important construction work which has been made possible by American loans and credits without any such restrictive clauses.

In a majority of cases the contract for the construction of public works abroad has been secured in the first instance by the American engineering concern on its own initiative and its own merits, the matter of financing being arranged later. In certain cases the contracting and the financing were done concurrently, and in other instances, no doubt, American firms were given more consideration because the funds had been or could be raised in New York.

What American Engineers Are Doing Abroad

AERICAN engineering has been favorably advertised the world over by the successful completion of the Panama Canal, by the building of huge sky-scrapers and by the great irrigation and hydro-electric projects here at home. The work of General Wood in ridding Havana of yellow fever and of General Gorgas in Panama have given American sanitary engineering a superlative reputation in foreign lands, especially in Latin-American countries. And it is interesting to note that a large part of the foreign engineering work which

American concerns are now handling consists of building water works and sewage systems, paving streets, and doing similar construction work for the benefit of public health.

Take, for example, some of the projects which Ulen & Company of New York have executed or are now executing. About ten years ago this firm built waterworks and sewer systems for five interior cities in Uruguay. Several years later they executed similar contracts for the cities of La Paz and Cochabamba in the Republic of Bolivia. Recently they completed the installation of a sewer system for the city of Maranhao, Brazil, and are now putting in water and sewer systems for the city of Bogota in Colombia, and for a number of cities in Poland. They are moreover rehabilitating the water supply system of Athens and Piraeus which calls for the construction of a great aqueduct.

In addition to these sanitation projects this firm which, prior to 1915, had confined its activities to the United States, has completed for the Bolivian Government 123 miles of railway connecting the railway system of Bolivia with that of Argentina, and making it possible to travel by rail from the city of La Paz, high up in the Andes, to Buenos Aires on the River Platte.

Another American engineering concern that has been very active in foreign countries is the Foundation Company of America. This company has been doing a great deal of sanitation work, especially in Peru. Its contracts with the Peruvian Government call for the installation of water and sewer systems for a number of cities, in addition to the paving of city streets and the construction of highways and public buildings. The Foundation Company has been hard at work in Peru for five years or more but still has a lot of work ahead of it.

A few months ago the Foundation Company secured an important share in the contracts for the drainage of the Macedonian marshes—a very large and important undertaking which will change the face of the map of a wide area in that portion of Greece. This company also received important building contracts in Japan following the earthquake of September, 1923.

I do not pretend to know all about the contracts that concerns, such as the Foundation Company and Ulen & Company, may have for construction work abroad. But the projects I have just cited represent large sums.

Many Engineering Contracts in the South

OTHER American construction concerns also are engaged on foreign contracts. Mention will be made of some of these, merely to indicate the widespread and varied activity of our engineering firms, some of which may not be so well known as the Foundation Company or Ulen & Company.

In San Salvador, the capital of the Republic of El Salvador, R. W. Hebard & Company are putting in a water works and sewage system and are paving the streets. This firm did similar sanitation work in Panama and in addition built for the Panama government the railroad from the port of Pedregal on the Pacific to interior cities in the Province of Chiriqui.

The International Railways of Central America, an American Company, is now building a line to connect its system in El Salvador with that in Guatemala. This will give El Salvador its first rail connection with the Atlantic seaboard.

In Mexico another American construction firm has a contract for the building of hundreds of miles of highways.

The J. G. White Engineering Company, which has to its credit the sanitation work which converted the port of Guayaquil, Ecuador, from a fever-stricken place into one of the healthiest spots in the Tropics, has recently been retained by the government of Mexico in connection with large irrigation developments and by the Guatemalan Government for various engineering projects.

Incidentally, mention should be made of the splendid work done by the United Fruit Company in constructing sanitary cities, modern hospitals and splendid port works at various places in the Caribbean countries in which it operates.

Razing of the Morro

I HAVE mentioned the sanitation project for the city of Maranhao, Brazil, which Ulen & Company recently completed. Another American firm, C. W. Bayly & Company of New Orleans, has a contract for somewhat similar work for Ceara, another seacoast city in northern Brazil. Other Brazilian construction projects in which American engineers have been engaged are the razing of the Morro, a great hill in the heart of the city of Rio de Janeiro, and irrigation works in the State of Ceara.

Latin American countries have been favorite fields for the activities of American engineers, as this partial list of undertakings shows. I might have mentioned the great engineering projects either completed or in progress of construction by the American mining companies, such as the Chile Copper Company, the Braden Copper Company, the Andes Copper Mining Company, the Cerro de Pasco Company, the Bethlehem Chile Iron Mines Co., the Vanadium Company, the Caracoles Tin Company, the Northern Peruvian Smelting and Refining Company. The development of these properties has called for the construction of railroads, power plants, port works, dwellings, etc. I am reminded of a visit I made in 1917 to the properties of the Bethlehem Chile Iron Mines Company when I was greatly impressed by the splendid electrically operated railway port connecting

the mines at Tofo with the port at Cruz Grande with its ore handling equipment like that at Duluth and its splendid dock hewn out of the solid rock.

The spirit of William Wheelright who several generations ago built the first railways in Chile and Argentina and that of Henry Meiggs who later constructed that marvel of railroad engineering—the Central Railroad of Peru—in addition to other difficult railways in that country seem to be reincarnated in the American engineers of the present generation who are tackling great engineering problems not only in South and Central America but in Europe and the Far East as well.

Neither space nor time will permit the re-counting of all the engineering work in foreign lands that American concerns have undertaken in recent years or have now under way. But to show that this spirit of engineering enterprise knows no geographical limits I might add that a few years ago American engineers built dikes and other protective works on the Yellow River in China which have averted the terrible inundations to which that section of China had been subject. Another American concern, the Siems-Carey Company of New York, had a contract for the rehabilitation of the Grand Canal of China as a navigable highway. As I understand it, this company did a lot of preliminary work but the project was not executed because of lack of available funds.

The significance of this cursory account of what American engineering and construction firms are doing in foreign lands on a scale undreamed of ten years ago is that American financial support is at the base of this new activity. American dollars have been at work abroad in a way that is new to us. Loans placed with the American public by foreign governments have made possible much, if not most, of this work, even though, so far as I am aware, not a single loan agreement has stipulated that American firms should have the preference in the awards of the construction contract. In a number of cases the engineering firm has carried the cost of construction out of its own resources or with the aid of affiliated financial groups, until the public works have been completed and put on a revenue-producing basis. In other cases, the work has been financed by American mining, railroad, plantation, and other companies out of their own resources or from the sale of bonds which were bought by the American public. To a very slight degree have the engineering projects been financed by the foreign government most concerned.

A work more beneficial than this would be hard to find, for the funds are expended on sanitation projects and on the development of natural resources which not only pay for themselves directly but also result in improved health and in increased earning power and wealth for millions.



Judging the Business Situation

By GEORGE E. ROBERTS

Vice President National City Bank, New York City

Not Difficult to Name Principal Factors But a Different Matter to Give Them Proper Weight in Relation to Each Other. Balanced Relations Necessary for Prosperity. Industries of Country in Fair State of Balance but a Hand Is on the Brakes.

THERE is no parallel in the history of all industry to the development of the automotive industry. I can remember when the automobile industry had no standing among bankers. It had no credit; it had to finance itself. Bankers had no faith in the future of the industry. They regarded the automobile as a luxury, they doubted if it served any useful purpose, and were afraid that if the industry had any degree of success it would ruin the country. But it has built itself up out of its own earnings until it is in the very first rank of American industries. The automobile crop has a greater value than the wheat crop or the cotton crop, or even of the corn crop, or the wheat and cotton crops put together. Evidently it meets a want, and one is forced to conclude that the automobile must render service, or the country would not be able to stand the expenditure.

The truck end of the automobile industry has not had as sensational a development as the passenger vehicle, but it is coming fast. I understand that in selling value the output of trucks is about one-fifth that of passenger cars, and while we must be coming somewhere near the saturation point on passenger cars, we are probably not much more than beginning on trucks. Whatever question there may be about the percentage of utility in passenger cars, it is a certain thing that the truck is 100 per cent utility.

Kipling wrote a poem once contrasting the big steamships which are called "liners" with the smaller and less pretentious cargo-boats which are the mainstay of British trade. I recall one stanza:

"The liner, she's lady, but if there wasn't any made,
There'd have to be the cargo boats for home and foreign trade."

And so I think of the Cadillacs and all the beautiful passenger cars as the ladies of the automotive industry,—

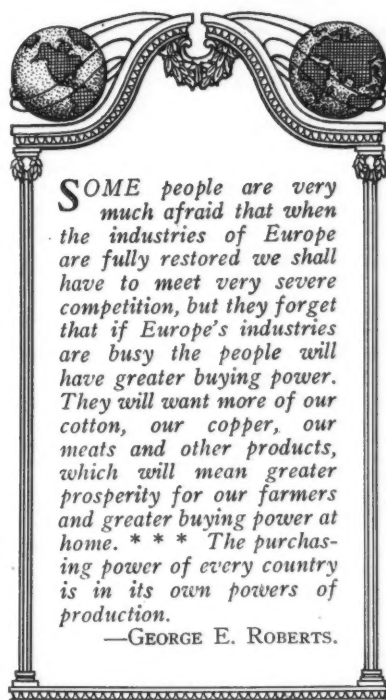
"but if there wasn't any made,
There'd have to be the freight trucks to carry on our trade."

The railroad, of course, has certain obvious advantages over the truck for long hauls, but the truck has certain advantages for interurban hauls that are coming to be appreciated.

"Forthwith to Save the Farmer"

THERE is a never-ending agitation for improving the rivers of this country as a means of transportation, but one of the drawbacks to water transportation, particularly for short distances, is the delivery that has to be made at both ends.

When I was a boy there was great agita-



tion in Iowa for what was called the Hennepin Canal project, a canal which was proposed to be built from Hennepin, a little village on the Mississippi below Rock Island, over to the Illinois river, and by which boats might pass through between the Mississippi River and Lake Michigan. That was a project to give cheap freight rates to the farmer. Always there is something that must be done forthwith to save the farmer. None of the proposals ever come to anything, but the farmer goes along oblivious to most of them, and doing a pretty good job at saving himself.

Back in my time in Iowa it was the Hennepin Canal that was going to do the business. One of the most active advocates of the canal, Jerry Murphy, a lawyer of Davenport, was elected to Congress on the strength of his promise to get the Hennepin Canal. And Jerry was in earnest and he made good. He got the appropriation into the River and Harbor bill, and the canal was dug, and water flowed through it from end to end, and that was about the last ever heard of the Hennepin Canal.

Some years ago, talking with a banker friend from Davenport I asked him if he

had ever heard of a waterway known as the Hennepin Canal and if it was in use. He said, "Oh, yes, the Hennepin Canal was open and in use," and that a little coal came through it from mines located near the canal, but he added that the coal was delivered of course on the bank of the canal or river, and had to be delivered by dray, and that an industry which used any quantity of coal could get it cheaper by having it delivered by rail on its own switch track and unloaded into its own bins.

That is one of the reasons why the railroads beat the waterways in competition, and the truck has a similar advantage over the railroad on freight that is delivered at terminals. A typewriter company which has its factory in Hartford and its general headquarters in New York, has made a careful calculation of the best way to get its machines from Hartford to the head offices. If it ships by rail it has a low cost on the line haul, but it is obliged to box or crate every machine, and it has cartage at both ends.

They have built the housing of their trucks with shelves and compartments, each compartment holding one typewriter snugly. That eliminates the cost of boxing, and the truck delivers its load direct from the factory to the warehouse in New York, more cheaply than it can be done by rail.

Major Church, an engineer to the Port Authority of New York, sees a great future for the truck in this interurban traffic, over moderate distances. He believes we are going to have motor-truck highways, laid out like railroads with low grades and curves, and motor-trucks hauling trains of trailers. If he is right there is a great future for the truck industry.

Forecasting Like Piloting

I ALWAYS think when I am asked to do anything like forecasting of a little story of Mark Twain's. He tells in it about his experience as a cub to a pilot.

He said that the first trip down the river to New Orleans the pilot pointed out to him the various landmarks he was steering by, a house, a fence, a dead tree, the point of a bluff. Mark paid careful attention, and when they arrived at New Orleans he thought he knew the river pretty well. But when they started back he found that the steering points were all different, and he had to learn an entire new set. Well, he set himself to do it, and when they got to the end of the trip, he thought that now he really did know the river, both coming and going. But by the next time they got

down to the lower river there had been heavy rains over the Mississippi Valley and a freshet was on. Then he found that the pilot was paying no attention to the marks he had used before. He was cutting across sand bars that he went around before; where he had formerly hugged close to the bank he was now sailing down the middle of the stream, and in general seemed to be going as he pleased. Then Mark began to understand what kind of a job it was to be a pilot.

Judging the business situation is a good deal like judging the river. The conditions never exactly repeat themselves. The general factors may be about the same. It is not difficult to name the principal factors in the situation any time, but when it comes to giving them their proper weight in relation to each other at different times, and taking account of all the elements of uncertainty, that is a different matter. Nobody can do it.

In the first place, if we are going to judge the prospects for prosperity, what are the conditions that make prosperity? What is the difference between good times and bad times? Why is business better at some times than at other times?

The answer is that general prosperity is a state of well-balanced relations throughout industry and business.

We have developed in these modern days a very complicated industrial and business organization. The primitive man did everything for himself, and he was independent. If he did not bring anything home for dinner he did not get any dinner, but that was all there was to it; or at any rate there was no disturbance outside the family. We live under different conditions. We have built up a great complicated, specialized system, in which each of us does some one thing, which may have very little relation to his own wants, and all depend upon supplying our own wants by an exchange of services with others. And it is a wonderfully effective system when it is all in order and in balance and running smoothly, but like every highly organized system or mechanism it has a tendency to get out of order more readily than a simpler system. It is a great interdependent organization and if anything goes wrong with any part of it, every part of the organization is affected.

Conditions Necessary for Prosperity

SINCE all business in the last analysis is an exchange of goods and services it follows that the various products and services must be offered on the market, in right proportions to each other and to the demand, in order that the exchanges may be readily made and that the market shall clear itself. When this is the condition we have prosperity. Everybody can sell his own products and be supplied with what he wants; all on a fair basis, and this is prosperity.

On the other hand, if the products are not offered in the right proportions, if the market does not clear itself, if certain products are in excess of demands and cannot be sold, then the producers of those products will not be able to buy what they want, the whole system will be thrown out of gear; and markets more or less disturbed.

If one can imagine the producers of every kind of goods and services coming to a common market place to meet and make their exchanges face to face, then one can form some idea of the necessity for balanced industry. Theoretically, according to the economists there is no such thing as general overproduction, for there is no limit to the wants of the world, but we have unbalanced production in greater or less degree practically all of the time. The purchasing power of every group of producers is in its own powers of production. He cannot buy the products of others unless he can sell his own.

Every manufacturer in order to get the best results out of his factory must have all the departments in balanced relations. If they are not there will be waste and losses, his costs will go up, his profits will go down and he will not have the buying power or possibilities of expansion that he would otherwise have. In other words, he will not be able to make his full contribution to prosperity. That balanced relationship, in the case of a single industry, is secured by the authority of the management, but in case of the whole industrial organization there is no such authority. It is a great voluntary system. We live under a regime of liberty. There is no overhead authority to tell any man what work he shall do, or what pay he shall get for it, and we do not want any such authority, but it is not strange under the conditions that there should be some jostling and confusion.

Managed by Free Movement of Prices

WE have a great automatic system, managed by the free movement of prices. When there is over-production in any line, prices go down and labor and enterprise shifts to some other line. When demand is greater than supply, prices go up and labor and enterprise shift to that line. And so we manage, on the whole, to maintain a fair state of balance in the industries, but there is a good deal of guess work and hit-or-miss about it. Still in ordinary times we get along fairly well.

But into this complicated, highly organized situation came the great war, with all its disorganizing influences. It was the greatest disturbance ever known to the modern world, or since industry has been organized on the modern scale. It overstimulated some industries and depressed others. It broke up the old trade connections around the world. It disturbed monetary conditions, changed the relations between currencies, broke down the exchanges. Worst of all it changed the price relations between different products and different industries. It caused a great rise of prices, and most things went up fairly well together, but when the collapse came they went down in a very uneven fashion. Some of them fell back to the 1913 price level or below, and some of them scarcely came down at all. Organized labor generally resisted wage-reductions pretty successfully, and its products have stayed up. Railroad employees have resisted reductions and transportation charges have stayed up. On the other hand, the prices of farm products, are fixed by competition, largely in world markets, and they came down in a great

slump, cutting the purchasing power of the farm population at first almost in two. There has been a farm crisis since 1920 in every country of the world. It has been practically the same everywhere, and that has been the principal reason for unstable and unsatisfactory conditions in the other industries. We have been better off in this country than they have been in any other country; our industries have been active by spells, but the buying power to maintain them in a full state of activity has been wanting. Approximately one-third of our people live on the farms, and these people have been short of buying power by reason of the low prices of what they have had to sell. That situation has improved very much in the last eighteen months, and I believe that the improvement is in a large degree permanent, because all over the world production and consumption have been gradually getting into a better state of adjustment, getting back nearer to that state of balance which is necessary to prosperity, and which natural economic laws tend constantly to establish.

Cause of Disturbance in the Corn Belt

ABOUT the only serious complaint there is from agriculture at this time, is from the corn belt. There is complaint that the price of corn is low, and that is so, but the reason for it furnishes another illustration of what I mean by balanced industry. Last year the corn crop was short and the price was high. The regular regime of agriculture in the corn belt was upset. The chief use for corn out there is to make pork, and when the farmers did not have the corn they sold down their breeding stock. Now they have a big crop of corn and a short crop of hogs, and the price of corn naturally falls. Hogs are bringing a big price, because of the scarcity. The farmers who hung on to their breeding stock last year and raised a good crop of pigs are reaping a harvest, but the farmers who have corn and no hogs have to sell their corn for what they can get. The long and short of it is that corn and hogs are out of balance this year and the corn has to be carried over until there are more hogs to eat it. That is a temporary condition, and it does not affect all of the farmers by any means.

In general, the industries of this country are in a fair state of balance at this time, business is generally prosperous, and there is no reason in sight why we should not have a healthy state of prosperity for an indefinite time.

The farther the world gets away from the war the more settled conditions naturally become, because the influence of natural economic law is constantly to restore balanced and normal conditions.

Some people are very much afraid that when the industries of Europe are fully restored we shall have to meet very severe competition, but they forget that if Europe's industries are busy the people will have greater buying power. They will want more of our cotton, our copper, our meats and other products, which will mean greater prosperity for our farmers and greater

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An Industrial Loan Department for a Commercial Bank

By JOHN C. MCNEIL

A Louisville National Bank Sets Up a Department to Make Small Loans to Wage Earners at 6 Per Cent Interest. Seeks to Get Small Merchants and Contractors to Make Indirect Use of Facilities. Bars New Business Ventures if Income Is Uncertain.

COMMERCIAL banks have generally left the making of small loans to the industrial loan companies, the credit unions, the Morris plan banks and other agencies that are more especially adapted to deal with this type of borrowing. They have been rather wary about entering this field, for a number of reasons. In the first place, the rate of interest which might be legally charged generally would not afford a reasonable profit, for lending small amounts of money on a basis requiring weekly or monthly payments meant more personnel and clerical work. The risk on this kind of an advance is somewhat higher than on the average credit extended and the satisfaction of the small loans, in case of default in payment, usually involved expense and trouble out of proportion to the possible profit.

Principally for these reasons, the commercial banks have not sought to make loans ranging from \$50 to \$300, although they have at times made loans within these limits to accommodate customers.

Recently, however, several banks in the larger cities have opened up industrial loan departments to cater to the demand of steady working people, of good reputation, who have no collateral to put up to secure a necessary advance, but yet desire to deal with financial interests of the highest standing. One of the labor banks in New York City installed such a department. In Louisville on August 1, the Louisville National Bank installed an industrial department.

Appealed to Small Depositor

IT is one of Louisville's oldest financial institutions and, in the past, has always made an especial appeal to the small business man and the wage-earner, realizing that the small balance of today often develops into the large balance of tomorrow. In the slogan "Large enough to protect you, small enough to know you," it has sought to reveal its sympathies for the smaller depositor.

It was the first national bank in Louisville to set up branches in different parts of the city for the convenience of its customers. A few years ago, the bank adopted the scheme of combining insurance with savings accounts and this developed considerable business, bringing savings accounts into the bank which resulted in other accounts for the institution. In its business, the bank found that in a great many

cases the man who was steadily employed but who unfortunately had no collateral, had a hard time in securing a loan in an emergency. It found that among its customers were several small contractors who could secure plenty of jobs from men regularly employed, if they were able to carry the work over a period of a year or two. The small plumbers recited how they could install bathrooms in cottages owned by bread winners if they could arrange to spread the payment out over a period of ten or twelve months. The painter told of how he could get plenty of jobs painting small houses, if the owner might get the advantage of time payments. Other cases developed that indicated a real need for an intermediary in the financing. And so last summer, the Louisville National Bank announced the opening of the Industrial Department. Perhaps one factor that swayed the officials was the revelation of the small losses sustained by the companies that financed the sales of automobiles on the monthly payment plan.

Before the Louisville National Bank adopted the plan, there were little, if any, opportunities for a man having no collateral to borrow any funds at a reasonable rate of interest. The large banks could not loan their funds except upon approved collateral, and then for short periods. Of course, if a man had proper collateral, he could borrow on the short term plan and then renew his loan each due date by paying part on the principal. The only resource the wage-earner had when in urgent need of funds was to go to some loan company and pay an exorbitant rate of interest. He would have to give a mortgage on his furniture as collateral, or secure the indorsement of about four or five of his friends. These loans are limited by the loan companies to amounts not exceeding \$300 or \$500.

How the Plan Works

THE bank, after considerable investigation, worked out a plan which is very fair to the borrower. Under this plan, any man who is regularly employed and who can secure the indorsement of two men also regularly employed, can borrow any sum from \$100 to \$2,000, dependent upon his ability to repay the sum, at 6 per cent interest, plus an investigation fee of 2 per cent.

The bank makes two classes of loans—indorsed loans, secured by the signature of

the borrower and two friends having good reputations and steady employment; and collateral loans, secured by Liberty bonds or other stocks and bonds.

Loans are made for a wide range of purposes—or for "any legitimate, sensible purpose," as the bank expresses it. However, three classes of loans are strictly taboo—for buying luxuries, speculation or starting a new business where the income is uncertain.

The sum borrowed is repayable weekly or monthly, as the man is paid by his employer.

This loan has an easy repayment feature. A loan of \$100 is repayable at the rate of \$2 a week or \$8.33 a month. The loan runs for a year and at the time of making the loan, the interest and investigating fee of \$8 is deducted. The balance is given to the borrower, netting him \$92 on each hundred dollars borrowed.

This compares very favorably with loans made by the so-called industrial loan companies where rates of 15 per cent to 50 per cent per annum are charged.

The bank is endeavoring to show the merchants, contractors and other business people how they can profit by the indirect use of the industrial loans. The solution of the "old" and "overdue account," it suggests, lies in getting these people to borrow the money from the bank and use the proceeds to settle the indebtedness. "They can and will give us each pay day a small amount, which they are too embarrassed to hand to you," the bank says.

Contractors and builders can secure many a good contract by offering this loan to their customers, it states, in addressing this class. "It gives you the cash," the bank observes. And likewise appliance men and other types, who can use the installment plan at an advantage, but yet who are not in a position to finance their operations without having cash paid down by the purchasers.

President Discusses Small Loans

"AS usual, the large commercial banking institutions are not organized for handling small loans that are paid back in weekly or monthly installments," Richard Bean, president of the bank, in discussing this system of loans stated. "For many years the people of moderate means who

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EDITORIAL

"THE economic law and the moral law are always in harmony," says George E. Roberts, in a discourse which is printed on another page. And there have been issued recently from two prominent corporations, reports which eloquently testify to the soundness of the doctrine that helping mankind to help himself is good economics and good business.

It used to be the fashion, a few years ago, for men to tell each other—on no authority at all—that corporations were without souls. The "soulless corporation" was a by-word which had a pessimistic popularity merely because it had a little mournful, kill-joy melody. It lost its discordant popularity because it was untrue and because there has come about a better understanding of the human-interest side of the corporation.

The Endicott Johnson Corporation, manufacturers of shoes at Endicott, N. Y., in its president's report, tells us that it has been able in these times of shrinking dollars to make the dollars of its employees actually worth \$1.25 in purchasing power.

"Due to our 'Labor Policy,'" says President George F. Johnson, "we have been able to go through the period of readjustment in the shoe and leather industry with our organization intact and greatly strengthened. Contrary to current custom no cuts in wages have been necessary, but, on the other hand, our 17,000 working partners have earned more money, the average increase being 5 per cent over the previous year. In contrast with these higher earnings, we have, through constant improvement of working conditions, considerably lowered our operating and labor costs.

"The cooperative methods inaugurated (and still in existence) make our workers' dollar worth \$1.25 in purchasing power. These cooperative activities include medical department, workers' stores and restaurants, and settle satisfactorily for our workers the high cost of food, medicine and doctor's bills."

The other bit of testimony referred to in substantiation of the statement that the economic law and the moral law are always in harmony, is found in an announcement made by the General Motors Corporation of the distribution of the sum of \$11,200,000 in cash and in common stock being made to 8300 of its employees.

"During each year," says the statement, "since the establishment of the savings fund in 1919, a new class has been formed, maturing in five years. In the course of the year employees make monthly or semi-monthly payments into the savings fund, not to exceed 10 per cent of their wages and the total for the year must not exceed \$300. For each dollar put into the savings fund by employees, the corporation puts fifty cents into an investment fund in the subsequent five years. Employees have the right to withdraw their deposits from the savings fund, plus interest; but if they withdraw before the end of the five years they forfeit the money deposited in the investment fund by the corporation for their benefit.

"Any employee participating in the plan may borrow money to make payment for a home without losing any of the benefits of the plan. Of the 8300 employees in

the 1920 class, approximately 4000 are buying homes through the aid of the fund. At the present time 54 per cent of all eligible employees, or 36,000, are participating under the plan. In all the classes since the fund has been established, there are over 7000 employees who have utilized the fund for assistance in buying and building homes.

"The actual cash distribution to be made at this time to these 8300 employees in the 1920 class from the savings fund is \$2,043,405. This is their deposits plus interest at 6 per cent compounded semi-annually. In addition to this cash there will be distributed from the investment fund, 75,481 shares of General Motors common stock which has a market value of \$9,157,720."

It makes little or no difference what basic motive prompts or has prompted either of these corporations. The final result is that the desire to help the average employee to better his personal and home conditions has worked in harmony with direct economics—it has worked around to the betterment of the corporation, for the employee who is easy in his mind regarding his personal affairs works with better intelligence and a more satisfied swing. The more he accumulates in a given locality, the more satisfied he becomes to remain in that locality and to cleave to the corporation which has helped him to secure some degree of independence.

The two corporations mentioned above are not necessarily outstanding examples of cases where altruism works round to economics. They may not perhaps be typical of the whole, but they amply justify the belief that a measure of our wonderful prosperity is springing from the desire of one man actually to help and foster the ambitions of another.

This Way Out

ANY class of producers who have on their hands the problem of selling more of their output than the market readily absorbs can not go far in this year of 1926 without getting a suggestion—if they will but take it—for the solution of their problem.

The answer as to what we will do with a surplus is found on practically every billboard from the Atlantic to the Pacific; in the coaches of most transportation systems, in some form or other; in magazines and newspapers, and in personal letters, circulars and catalogs the postman delivers from day to day at every door.

If there is no market make it. Wrigley did it for gum, Candler for a drink, Eastman for a little camera. If the market is not large enough make it larger. The raisin growers of California did it for raisins and the apple growers of the Pacific Coast have done it so successfully that they are selling their apples almost under the trees of Eastern apple growers.

Why not do the same with corn? It has splendid possibilities of an enlarged domestic market under the right kind of sales and advertising leadership.

There may be better ways to market than by the advertising route, but the advertising route at least has one thing to recommend it in that it is a broad well-traveled highway!

The Rubber Inquiry in Congress

By JOHN Q. TILSON

Majority Leader of the House of Representatives

What is to be Gained by Investigation into Foreign Monopolies? United States Forced to Pay Several Hundred Million Dollars Annually More Than So-Called Fair Price for Rubber. Little Hope for Production from Philippines. Better Trade Relations.

ONE of the troublesome questions growing out of the World War comes from the demoralization of the crude rubber market and industry. During the war the demand for rubber was unprecedented and all sources of supply were utilized to the limit. Upon the close of the war the abnormal demand for rubber dropped. There was not even the demand for the normal peace time requirements, because a large amount of manufactured rubber products were left on hand or in reserve when the war ended. The inevitable result of this falling off of the demand was to lower the price of crude rubber to such an extent that it was no longer profitable to produce it. Grave consequences for the future were feared. In order to stabilize the price at a figure high enough to encourage production the so-called Stevenson plan was hit upon, and in 1922 the control of rubber production in the British East Indies was organized under it.

After investigation by those most familiar with the subject, and most interested in having a dependable supply of rubber available, it was agreed as a part of the plan that about thirty-six cents a pound was a fair price for crude rubber and that if this price were assured a dependable supply of rubber would also be ultimately assured. The plan worked; in fact, it worked altogether too well. When the price had reached the level agreed upon as a fair price, instead of being happy and content, those who would profit by higher prices were not satisfied with the fair price now being realized, and proceeded to raise the price to a still higher level.

When the year 1925 opened the price of rubber was about the fair price. For the month of February, 1925, the average

price was just thirty-six cents per pound; in March the average price had risen to forty-one cents per pound; in April, it was 43.6 cents; in May 58.4 cents; in June 77.3 cents, and in July \$1.032. Here it appeared that the price had been lifted altogether too rapidly and there was a slump in the rubber market, so that in August the average price was only eighty-three cents per pound; in September it was 88.9 cents; in October 98.1 cents, and in November, the last month for which the figures at my disposal are available, the price was \$1.095. The peak price reached was \$1.21.

What the effect of such prices would be if they prevailed indefinitely may be readily

\$700,000,000 per annum. A British newspaper recently boasted that if this price could be maintained for seven or eight years the entire amount of the British war debt to the United States would be thereby collected and paid.

The methods used have been restriction of production and the control of releases in export. While it is not claimed that the methods used are in violation of international law or of any treaty agreement, it may nevertheless be said that the measures by which the controls are made effective are of such a nature that if resorted to in the domestic commerce of the United States would be in violation of our anti-trust laws made

for the purpose of preventing monopolistic combinations and agreements in restraint of trade, and the most unfortunate feature of the case, so far as international relations are concerned, is that the restrictions have been made a matter of governmental regulation.

In view of the situation just described, a resolution was introduced by me just before the holiday recess of Congress, authorizing the Interstate and Foreign Commerce Committee of the House of Representatives to inquire into the subject of restrictions and control of rubber and other raw materials necessary for the continuation of our industries, imported into this country from foreign

countries, and to report the findings of the Committee with its recommendations to the House. The inquiry was begun immediately after the holiday recess, and as this is written is still going on. Already considerable information not heretofore generally understood has been brought out and brought together in such a way as to cause the situation, now critical in the rubber in-

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Ewing Galloway

Smoked latex—the juice from rubber trees—drying on lines in front of a native hut in the Singapore district.

seen. Our annual crude rubber requirements for the next year or two will probably be approximately 900,000,000 pounds. At the so-called fair price this supply would cost in the neighborhood of \$300,000,000, while under the top price already reached our requirements would cost approximately \$1,000,000,000. In other words, the top price over the so-called fair price would mean a loss to American users of rubber of about

Western Federal Reclamation

By TASKER L. ODDIE

U. S. Senator from Nevada; Member of Senate Committee on Irrigation and Reclamation

Through It 2,000,000 Acres of Land Have Been Irrigated. A New Farm Population of 142,000. There Are 37,000 Farms Annually Producing Crops Valued at Over \$110,000,000. New Wealth Over Three Times Amount of the Investment.

THE present national irrigation-reclamation policy was created to reclaim the arid lands of the western public land states which lack sufficient rainfall to permit crops to grow without irrigation. It had its beginning in the Newlands Reclamation Act of 1902, and the Newlands project in Nevada was the first to be built under this act.

Of the more than 70,000,000 acres of land within the boundaries of the state of Nevada, the Federal government owns about 60,000,000 acres, or nearly 90 per cent, an area almost as large as New York, New Jersey and Connecticut combined. Only about 10 per cent of the land within the borders of Nevada is in private ownership, from which revenue by taxation can be derived.

This presents a striking illustration of the co-partnership relation which exists between the Federal government and the western public land states, and the moral responsibility and obligation that rests on the Federal government in its dealings with these states.

These western public land states contribute vast sums in taxes to the Federal Treasury each year, a large part of which are paid in and credited to some of the eastern states.

For nearly twenty-five years the government has been positively and legally committed to a fixed reclamation policy. It is the trustee for the reclamation fund, which is derived from the sale of public lands, and from royalties from coal and oil leases on the public lands in the western public land states, and it is also administrator of the projects, so its duty is to fulfill its obligations in these matters efficiently and promptly. It must not and cannot abandon this policy, or impose impracticable restrictions on its administration.

Loans to Settlers

THE money expended for these projects is in the nature of loans to the settlers which must be returned to the revolving reclamation fund in order that it may be used for the completion or extension of existing projects, or the building of meritorious and needed new ones. This money does not come from the Treasury funds which are raised by taxation from the people, as are the appropriations for rivers and harbors and other public improvements which are outright expenditures of the government which do not have to be repaid.

During the last session of Congress the President recommended certain legislation

relating to reclamation, which was enacted into law. It was based on the able and exhaustive report on reclamation projects made by a committee of experts appointed by the Secretary of the Interior for that purpose.

This legislation was carefully considered and favorably reported to Congress by the committees in both Houses having these matters in charge. Included in these committees and in the membership of both Houses, are some of the ablest and most experienced men in the country on irrigation and reclamation matters and who are also recognized as leaders in industry, finance and the professions. They have been selected by the people as their representatives, and their advice and counsel, and the laws relating to these matters which they have helped to enact, and which the President has approved, should unquestionably be given heed by the government officials whose duty it is only to administer them with the utmost promptness and dispatch. This has not been done in certain important cases.

Recently certain unfair and misleading statements intimating that western Federal reclamation has proved a failure have appeared in several periodicals of large circulation, and have come from certain departmental officials of our government. This has had a tendency to undermine the public confidence in reclamation project development, and if not answered and checked will do serious harm to reclamation in general, and to the business of the whole country. It will make it difficult to secure the necessary appropriations from Congress, and will tend to depreciate the value of reclamation securities and retard financing of private reclamation enterprises hereafter. It is therefore necessary that the bankers of our country be reliably informed on this question, as they are eminently qualified to grasp the real facts, and are especially interested in and affected by the outcome. They, more than others, know that unanswered and unchecked misleading and damaging reports on any business or industry are harmful, and reclamation enterprises which have recently been attacked are not unlike banking enterprises in this respect. Favorable public opinion and confidence in reclamation enterprises are as essential to their success as they are to financial and other business enterprises.

What It Has Accomplished

WE must anticipate the future growth of industry and population in our country by reclaiming more lands. Invest-

tigation will show that the agricultural output of the country is not increasing proportionately with our population. The normal balance between agricultural production and consumption in our country requires the completion of our present reclamation projects and others under contemplation. A retarding of normal western reclamation growth will tend to delay the reducing of the high cost of living to the people in the populous centers, and in the country at large.

If our country's growth and development has reached its maximum, these arguments and facts are of no avail.

Federal reclamation has been one of the most strikingly successful, progressive and constructive enterprises ever undertaken by our government. It has transformed vast areas of the arid deserts in the western states into prosperous farming communities. It has resulted in the irrigation of about 2,000,000 acres of new land. It has created a new farm population of about 142,000 people with 37,000 irrigated farms, and 208 towns with a combined population of 337,000 people. It has created \$600,000,000 of new national wealth. It is producing crops on these projects valued at over \$110,000,000 per annum. Already about \$200,000,000 has been expended or contracted for from the reclamation fund in building these projects, and about \$60,000,000 of this has already been repaid to the fund.

Another important result of these western reclamation projects has been the creation of 935 schools, 633 churches, and 150 banks with deposits of \$111,000,000.

Benefits of Irrigation

THE benefits that have come to the country as a whole from these western reclamation projects is incalculable. They have created a market for \$500,000,000 worth of manufactured and other products which other states have furnished. In this the East has especially benefited. They furnish winter feed for great herds of cattle and sheep that range in the western states. The feeders from these herds provide a substantial part of the market for the corn products of the middle western states. Furthermore, these projects contribute millions of dollars per annum to the various transportation agencies in the country. They also contribute millions of dollars in taxes to the state and Federal government each year. In fact, they are so closely knitted to the business and financial structure of the whole country, and of such vast and far-reaching importance that they must be en-

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The High Court of Our Import Trade

By BRUCE DAVENPORT

The Little Known United States Court of Customs Appeals Is Virtually the Final Arbiter in Cases Involving a Half Billion Dollars Annually in Revenue. Passes on Knotty Questions of Customs Duties and the Classifications of All Imports.

IF courts were given popular names, there is a high tribunal sitting in Washington that doubtless would be known as the Supreme Court of foreign trade. It is one of the most important parts of the Federal business machinery—for it is virtually the final arbiter in cases that provide nearly a half-billion dollars of revenue annually to the United States Treasury. Clothed with power to make refunds that may reach into the millions, it has an indefinite appropriation—which means that its awards are immediately honored by the Treasury.

But, in spite of its importance, the court is almost unknown. The average business man or banker is probably unaware of its existence. For the United States Court of Customs Appeals is one of the little known and unsung branches of the government. It is quartered in a few rented offices of a bank building in the Capital. Yet there is a single case recently handed down that involves three million dollars in revenue. With the growth of our import trade, the court promises to take an even more prominent part in the business affairs of the country.

Created to End Chaos

THE court is one of comparatively recent origin. It was set up in 1909 to unravel the tangled skein of litigation that had grown up under the administration of the customs laws. As its name implies, the court has jurisdiction over cases where the importer or the government appeals from the duties that are assessed on goods and commodities imported from foreign countries. Just as the tariff has always been a question of marked differences in politics, the administration of the act—with the multifarious task of determining the proper classification of nearly every article that seeks entry from the outside world and ascertaining its real value—creates thousands of differences daily. It is the work of the customs court to settle the knottiest differences.

More things than ever packed Noah's ark come into a single American port of entry on almost any business day. Thousands upon thousands of articles are specifically catalogued in the fat book that makes up the schedules in the Tariff Act. But there are a vast number of things that are covered by the basket clauses or listed loosely as articles "not specially provided for." Nat-



Kadel and Herbert
West street, the congested thoroughfare that leads from the North River piers in New York port.

urally many a dispute arises between the importer and the government, especially if the classification that the importer insists is appropriate calls for the payment of smaller duties than that which the customs experts give it.

There are fine distinctions to be drawn.

One of the great chains of five-and-ten cent stores imported a vast quantity of ornaments and baubles for Christmas trees and sought to have the trinkets entered as toys. The customs service insisted that the goods were not dutiable as toys but should be admitted as manufactures of glass. The rate on toys was less than on manufactures of glass so the chain stores sought the toy classification. Thousands of dollars in revenue to the government hung upon the decision of the customs court, which was favorable in the main to the importer.

Jacquard lace is so heavy that it is sometimes used as upholstery. Within recent months there were heavy imports of this article and the importers sought to have it admitted as upholstery because the duty on lace is much higher. The customs service was upheld in its position that Jacquard lace would have to pay the higher rate.

Cases where the wits of the importers are matched against those of the gov-

ernment in seeking a classification that will escape the high rates of the tariff are almost countless. If there is any way to avoid the heavier burden, it is usually found despite the studied effort of Congressional committees not to leave a loophole. Daily there are hundreds of protests filed over the classification of articles that go over that tortuous course known as the customs maze.

Classification is just one of the major difficulties that confront the men who collect the tariff. Valuation is more perplexing.

The tariff act levies specific—so much per foot, per pound or per article—and ad valorem duties; and occasionally a combination of the two. Once an import has been classified that bears a specific rate it is easy to figure out how much the duty is. But in the case of ad valorem rates, where the tariff is a certain per cent of its value, it is a mighty difficult matter, at times. Naturally the importer seeks to have the value as low as possible, the government wants to get its rightful duty and the American manufacturer of the same commodity that is being brought in to compete with his product wants the value placed at a high figure to get the utmost in protection. This three-sided struggle goes on continuously.

At the present time, such a struggle may be seen in the fixing of chemical prices. The American textile manufacturer wants to get the foreign-made dyes as cheaply as possible. The American chemical industry, which was largely developed during the war, insists that the foreign dyes should not be undervalued because if they are, the foreigners may be able to lay down the dyes in the United States for less than the actual cost of production here. This, it is obvious, would kill the American industry.

How Merchandise Enters

IT should not be inferred that the court is called to pass judgment on the multitude of protests as to classification or valuation. It is a court of last resort and only those cases reach it which have not been adjusted by the regular and ordinary machinery.

When merchandise arrives for entry, the importer files his declaration, specifying what he is seeking to bring in, setting forth its foreign wholesale value and classifying it. He pays the duty at the outset. The government checks up on the declaration to

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The Debt Funding Program In Congress

By ROBERT BARRY

Insistence of the Representatives that War Debt Funding Agreements be First Considered in the House Probably Means the Salvation of the Administration's Program. Two Plans of Approach to Debt Settlement. Why Secretary Mellon Chose Business.

THE salvation of the administration's debt funding program seems assured through the insistence by the House that the agreements had to be considered first by the House because they were measures raising revenue for the Treasury. Mr. Mellon had been striving through many months to bring the debt discussion in the United States to that precise basis.

He has believed all along that if he could extract some of the politics from the issue he could succeed in liquidating the whole troublesome mess. His patience has been taxed, his good faith challenged, his views and purposes assailed. Now, he envisages a vindication.

It has come about through a new leadership in the House of Representatives. The lower body heard echoes early in December of a colorful political discussion in the Senate of the war debt agreements. Before another day dawned, the House was a unit in demanding that the Senate keep hands off the debt agreements.

House Asserted Its Rights

THE House armed to assert its rights. The Senate started out to treat the funding arrangements from a political standpoint. An appeal to the prejudices of the American taxpayer was imminent. He would be informed he had been a victim of European strategists. Imposing statistics were to be paraded in the Senate chamber to support charges that the Treasury had been pilfered, the popular purse looted and the "life, liberty and happiness" of tax-paying Americans of the future bartered over a debt-settlement table where Mr. Mellon had sought to lay the cornerstone of a memorial to himself as Secretary of the Treasury.

Mr. Mellon was not concerned so much about what might be said about him in the Senate but he did not wish to have the debt agreements rejected through political consideration. If they were unsound economically, well and good, but he wished them to stand or fall on the basis of accepted fiscal standards.

The Republican members of the Senate Committee on Finance, at a secret meeting before Christmas, considered the Mellon agreements and approved them. Irrespective of the politics which might develop those Senators were prepared to go through with that decision. With the influence of the Ad-

ministration back of the Finance Committee the ultimate determination by Congress is not confused.

The Italian Settlement

THE House voted two to one for ratification of the agreement with Italy. The bulk of the opposition votes came from the South. Settlements with Belgium, Czechoslovakia, Roumania and others were approved by heavy majorities. Arguments against the Italian adjustment will be presented with greater violence in the Senate, yet Administration leaders could count, a month prior to debt considerations, less than twenty negative votes.

Mussolini is the target. The anti-Fascist Italians in the United States wish to strike at him. The Dictator's proposal to restore Rome to its ancient grandeur and his enlarged military budget afford topics for Senate debate.

When the Senate debates the debt agreements, late in February, and the ability of debtor nations to undertake large obligations with American bankers, Secretary Mellon will present a practical suggestion to the corn and wheat West and the cotton South. Only from those private loans to Europe during the past year, have those countries been able to pay for wheat and cotton. Without those new loans American exports are impossible.

Good Bargains or Bad?

IT is possible to treat the debt settlement issue as it arises in Congress in many ways. You may wrap yourself in a maze of figures, facts and fancies and conclude that the government's policy has been eminently right or tragically wrong. You may construct a theory that Mr. Mellon and his associates were too harsh with France or that they were too liberal with Italy.

If your inquiry should bring you to Washington you may hear on the "highest authority" that Mr. Mellon had come to an agreement with Joseph Caillaux but that Senator Reed Smoot was able to upset the apple cart because Secretary Kellogg and Secretary Hoover would not stand with the Secretary of the Treasury.

You may ascertain from "the most competent quarters" that having come to an accord with Italy on the terms of the Volpi-Mellon agreement, the American Commission could hardly insist on terms as exact-

ing as those in the so-called Mellon-Caillaux proposal which failed.

You may engage a Treasury actuary to demonstrate that the agreement with Italy means the American people have compromised for about forty-five cents on the dollar as against eighty-two cents in the British settlement.

To offset that you can command statistics and viewpoint supporting the theory that America has driven amazingly hard bargains; that the interest rates accorded her debtors may operate to her gain at some future date when money might be cheaper; that Andrew W. Mellon will be better understood about the time the peak payments are reached and America's own war debt sinking fund requirements are lowest.

You can have for the asking an abundance and variety of opinions as to the ultimate collections or revision or default or repudiation of the Mellon agreements, but dealing with the debt settlements as Congress obtains them there is nothing mysterious about them.

Any responsible writer in Washington may reach the foundations of the whole policy merely by taking the trouble to interview Mr. Mellon or Undersecretary Winston. The facts were available long before the Treasury chiefs appeared before the Committee on Ways and Means of the House of Representatives at the conclusion of the Christmas recess.

Two Avenues of Approach

MR. MELLON came to a decision some months ago that there were two avenues of approach to debt settlements. One was to attempt adjustment on a political basis. That meant an American insistence on collection of the last dollar, insistence on a rate of interest as "stated in the bond" or in the language of politics, "payment of the last red cent."

The other course open to the Secretary of the Treasury was to treat the whole question as an affair among business men, to forget that arrangements among governments are distinct from obligations among men and to apply accepted formula of business procedure to a problem of political organizations. Mr. Mellon may not have realized it but he was harking back by the straightest possible line to his own personal experience as a man of large affairs in

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The Mechanism of Federal Reserve Policy

By W. RANDOLPH BURGESS

Assistant Federal Reserve Agent, Federal Reserve Bank of New York

Factors Which Are Employed in Determining It. A Fundamental Principle Is to Safeguard Local Interests. Among the Men Who Make the Policies, Business Men Are in the Majority. The Discount Rate Experience. Open Market Transactions.

IN preceding articles in this series it has been pointed out that certain of the effects of the presence of the Federal Reserve System have been due to the more or less automatic operation of the Reserve Bank mechanism. An improved check collection plan arose naturally from the presence of a countrywide agency for centralizing bank reserves. More stable interest rates result from the flow of funds into and out of the Reserve Banks, mostly on the initiative of hundreds of member banks. A tremendous import of gold has done little to unsettle our credit structure because member banks found themselves owing the Reserve Banks large sums after the war and used most of the gold to pay off these debts. These and other results have reflected largely the operations of the Reserve System as a mechanism.

There are other phases of Reserve System operation in which policy and planning are of the utmost importance. In fact the establishment of the system has laid the basis for an American banking policy. In the old days with the country's gold reserves scattered among 27,000 separate banks, each working for its own interest and each organized for profits, no continuous common policy was feasible. No one was responsible for general credit conditions. In times of emergency when some joint action was imperative, powerful private individuals and the clearing houses took command of the situation and enforced some plan for a short period. In other countries banks of issue gave continuous leadership, but here we had no such agency before the Reserve System was established. The Reserve Act

provided an organization, not operated for profit, continuously interested in the country's banking policy.

The decisions reached by those charged with the administration of Federal Reserve policy are thus of national importance. Even in the field of policy, however, mechanism has an important place and it is the purpose of this article to discuss certain of the factors in determining a policy which may be thought of as semi-mechanical in nature.

restrictions of state or national banking law.

Similarly the twelve Federal Reserve Banks are autonomous units in dealing with the member banks. Each Federal Reserve Bank is operated by its own directors and the officers appointed by its board of directors. Each Reserve Bank decides how much or how little it will lend to member banks. Each Reserve Bank is responsible for initiating changes in its discount rate and for deciding its policy in open market transactions. It is clear in the Federal Reserve Act that Congress had no intention of creating a central bank in this country but a regional banking organization, with only a certain measure of centralization in those matters in which uniformity of practice and policy is essential.

There are certain of the functions of the Reserve Banks which are countrywide in scope, including the collection and wire transfer systems, in which uniformity of practice is necessary, and for these functions the Federal Reserve Board prepares uniform regulations. In matters of policy, moreover, a certain

coordination is necessary and the law provides that discount rates established by the individual Reserve Banks are subject to "review and determination by the Federal Reserve Board." Coordination in open market purchases of acceptances and government securities is effected through a committee of governors of five of the Reserve Banks, which makes recommendations to the banks as to open market policy. The Federal Reserve Board has authority to deal with cases in which interdistrict action is necessary, such as where one Reserve Bank finds it necessary to borrow from another.

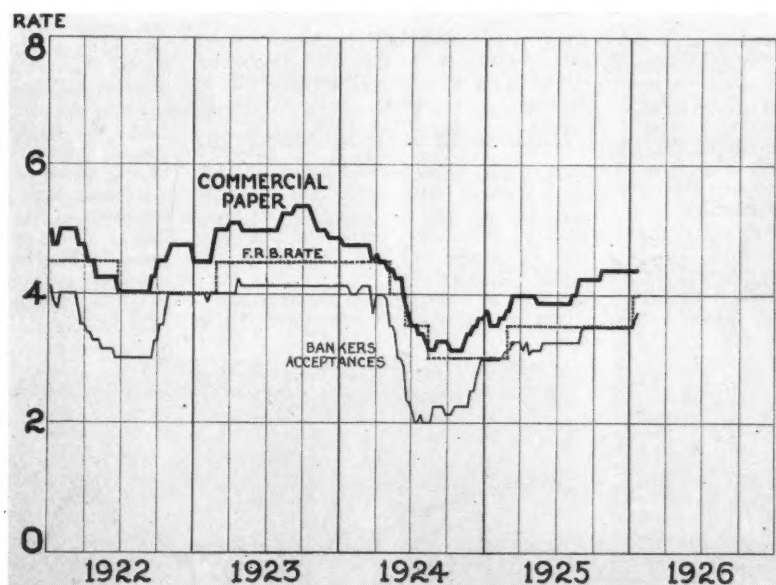


Diagram 1—United States Money Rates.

A fundamental principle of the mechanism, or machinery, for determining Federal Reserve policy is its provision for safeguarding local interests, while at the same time insuring a measure of national unity in policy.

Beginning with the local member bank the principle of local self-government is respected. No Federal Reserve Bank tells its member banks what loans they may or may not make to their customers, what investments they may buy, or what deposits they may accept. All these are matters for decision by the member bank, under the general re-

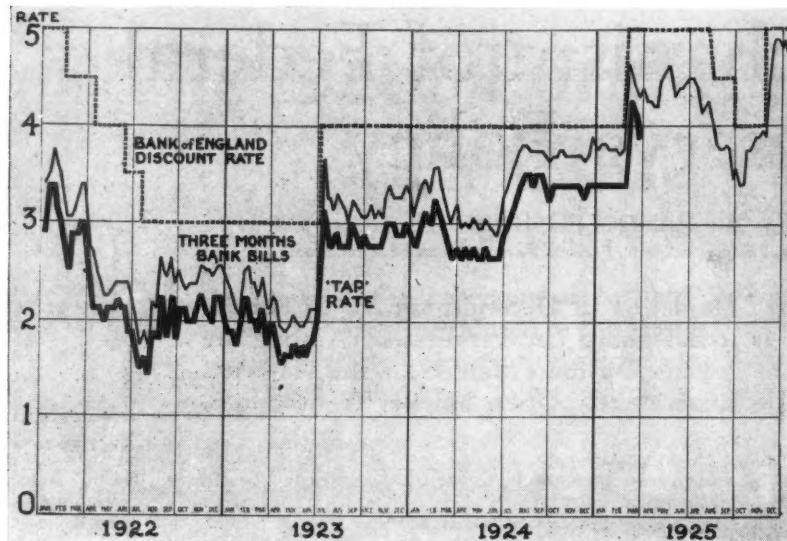


Diagram 2—London Money Rates.

The provision in the mechanism of the Reserve System for safeguarding both national and local interest was referred to as follows by President Wilson in a letter to Senator Underwood:

"No group of bankers anywhere can get control. No one part of the country can concentrate the advantages and conveniences of the system upon itself for its own selfish advantage. . . . I think we are justified in speaking of this as a democracy of credit. Credit is at the disposal of every man who can show energy and assets. Each region of the country is set to study its own needs and opportunities and the whole country stands by to assist. It is self-government as well as democracy."

Who Decides Policy

ANOTHER feature of the mechanism of the Federal Reserve System, which is a guarantee of the representative character of decisions as to policy, is the method of selection of the people who decide policy.

The Federal Reserve Board consists of eight members including the Secretary of the Treasury and the Comptroller of the Currency ex-officio. The six other members are appointed by the President for ten-year terms. Not more than one of the six members shall come from any one Federal Reserve district, and they must be appointed with "due regard to a fair representation of the financial, industrial, and commercial interests, and geographical divisions of the country." The present six appointed members of the board were formerly banker, farmer, merchant, newspaper publisher, lawyer, and economist.

The selection of directors of the individual Reserve Banks was discussed in the *Monthly Review* of the Federal Reserve Bank of New York for January 1, 1926, as follows:

"Of the nine directors (of each Reserve Bank), six are elected by the member banks and three are appointed by the Federal Reserve Board. Of the six elected by member banks three may be bankers, and the other three must be actively engaged in commerce, agriculture, or industry in the district, and while serving as Reserve Bank directors may not serve as directors or officers of any other bank. Of the three directors ap-

pointed by the Federal Reserve Board, one acts as chairman of the board, a man of banking experience, and devotes his entire time to the Federal Reserve Bank, carrying in addition the title and duties of Federal Reserve Agent. The other two appointed by the Federal Reserve Board must have no other banking connection while serving as directors. Hence they are usually business men.

Business Men in the Majority

THUS, of the nine directors of each Reserve Bank, five are ordinarily business men, three are active bankers (frequently with business interests in addition), and one is chairman and Federal Reserve Agent. Directors hold office for three years and may be reappointed or reelected.

"Of the present 108 directors of the

twelve Reserve Banks, twelve are the chairmen of the board and thirty-six are active bankers. The remaining sixty, constituting the majority, have the following occupations:

19 manufacturers	2 lawyers
14 merchants	2 railroads
4 farmers	1 cattleman
4 lumbermen	1 contractor
2 insurance	1 public utilities
3 investment bankers	1 mining
3 retired business men	1 savings bank officer
2 publishers	

"In each of the twelve Federal Reserve districts it is men with this wide range of interests and familiar with conditions in the district who are responsible for the management of the Reserve Bank.

"In addition to the directors of the twelve Reserve Banks each of the twenty-three branches has a board of seven directors, residents of the branch territory, of whom four are appointed by the Federal Reserve Bank of the district and three by the Federal Reserve Board. The directors of branches have a range of occupations and interests similar to that indicated above for the directors of the banks. Their jurisdiction in credit matters is limited to passing upon loans to member banks in the territory served by the branch."

The Federal Reserve Act provides for a Federal Advisory Council consisting of one member from each district, selected by the board of directors of the Reserve Bank in that district. This council meets at least four times a year and discusses with the Federal Reserve Board important problems of policy. The council members are bankers and business men of national reputation.

As a still further means for the coordination of Federal Reserve policy the Federal Reserve Board has made it a custom to call conferences each year of the chairman and governors of the twelve Federal Reserve Banks. These conferences meet in Washington in the offices of the Federal Reserve Board and are the occasion for a thorough review of important phases of Federal Reserve policy.

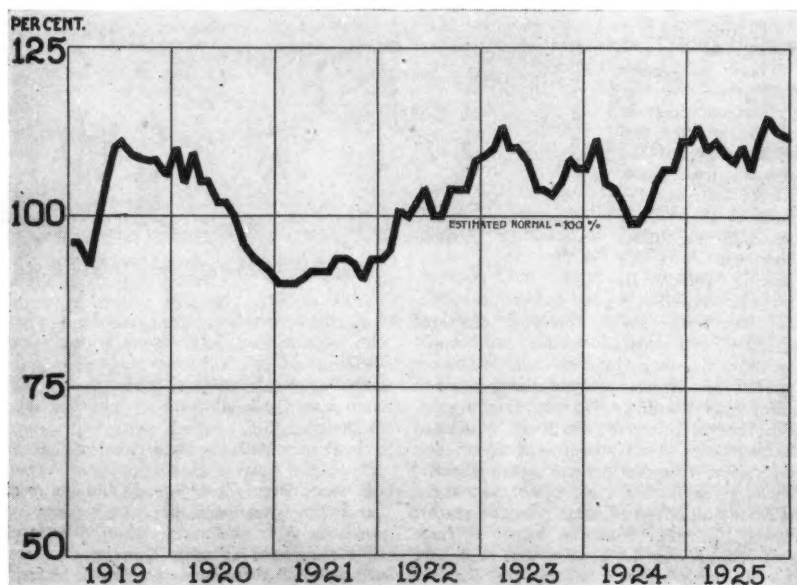


Diagram 3—Volume of Trade.

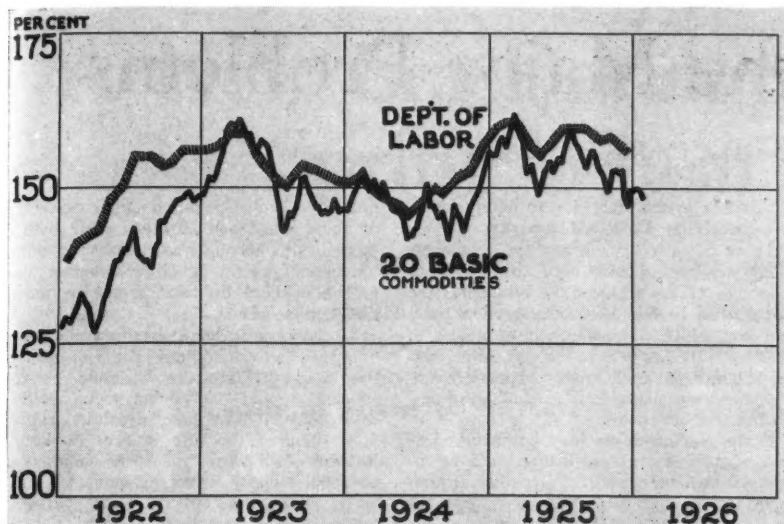


Diagram 4—Commodity Prices in the United States.

So we see that under the terms of the Federal Reserve Act and current procedure, the management of the Federal Reserve System is so designed as to bring to bear upon any important question of policy both local and national points of view, together with the opinions of men of many different occupations and interests.

Not Operated for Profit

By the terms of their establishment the Federal Reserve Banks have a different philosophy from that of commercial banks. The mechanism is devised so as to remove from their decisions as completely as possible the motive of profit. Any profits beyond 6 per cent dividends to member banks and a reasonable accumulation of surplus are required by law to be turned over to the United States government as a franchise tax. This removes the incentive to operate the banks for the purpose of making large profits and leaves them free to concentrate their policy upon public service.

More positively, the Federal Reserve Act lays down the principle that the discount rate shall be determined "with a view of accommodating commerce and business." These are general terms but they at least indicate that public service and not profit is the end to be sought. A similar principle has been adopted and promulgated by the Federal Reserve Board as the guiding principle in their purchases and sales of government securities.

Furthermore, there is no question with the Reserve Banks of getting or retaining customers; there are no special arrangements for particular customers. In fact the Reserve Act specifically forbids "discrimination in favor of or against any member bank." In each district the largest bank and the smallest bank both borrow at the same rate.

The whole atmosphere of Reserve Bank policy making is thus quite different from that of the commercial institution. It encourages impartial decisions, with the public welfare as the goal.

From the earliest years of their operation the Federal Reserve Board and Banks

recognized the need of having as tools in determining policy the fullest possible information on business and credit conditions. The Federal Reserve Board organized a Division of Analysis and Research in 1918, and all the Reserve Banks have organized statistical departments. At the present time the reporting and statistical service of the system is probably one of the most highly developed in the country.

The result is that when a board of directors of a Reserve Bank or when the Federal Reserve Board considers a question of policy it has before it a wide range of data as to the condition of business and banking. The information includes a great deal of data collected by the Reserve System directly from original sources. These data include current reports upon the following:

- Federal Reserve operations
- Condition of member banks
- Money market rates and conditions
- Gold movements
- Movements of funds about the country
- Savings bank deposits
- Bank debits
- Condition of foreign banks of issue
- Money rates abroad
- Foreign exchange rates
- New foreign financing
- Sales and stocks of department stores
- Sales and stocks of wholesale dealers
- Sales of chain stores and mail order houses
- Business profits

The Reserve Board and Banks compute a variety of indexes including indexes of prices, production, employment, wages, building, transportation, volume of trade, bank debits, velocity of deposits, wholesale trade, retail trade, failures, etc.

These data are presented to the Federal Reserve Board and the directors of the banks as they become pertinent to any problem under discussion. The charts illustrating this article, for example, are copies of several of the large charts which are regularly presented at the weekly meeting of the directors of the Federal Reserve Bank of New York, along with detailed data in the form of typed reports. This comprehensive body of facts has an important place in the mechanism of the Reserve System for policy determination.

In passing it may be noted that most of this information is made public regularly (in the form of aggregates) in the *Federal Reserve Bulletin* and the monthly reviews of credit and business conditions published by the Federal Reserve agents of the twelve banks.

Discount Rate Experience

NOT only in the provisions for the selection of directors and in the general scheme of organization and operation, but in the making of specific decisions as well we find important semi-mechanical aids to the formation of Federal Reserve policy. The two matters of policy which are probably most important and which call for continuous attention are the fixing of discount rates, and decisions as to purchases or sales of government securities in the open market.

In the determination of the discount rate the Federal Reserve System has been able to make little use, for the present at least, of one time-honored mechanical aid to judgment, the reserve ratio. The reserve ratio, which is the ratio of reserves to liability for note issues and deposits, has always been recognized as one of the most important factors considered by banks of issue in determining discount policy. Historically there was a tendency, other things being equal, for banks of issue to raise their rates when their ratio of gold to liabilities went below an accepted standard and drop their rates when the ratio went above this point. For some years this historic guide was of use to the Reserve Banks. In the war and post-war periods the sinking of the reserve

(Continued on page 596)

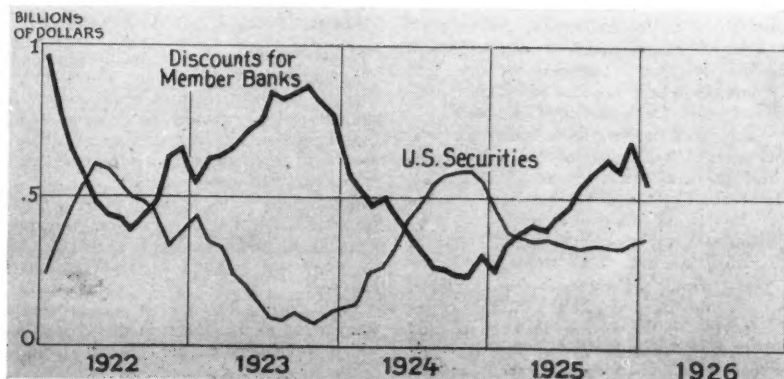


Diagram 5—Discounts and United States Securities held by all Federal Reserve Banks

Some of the Major Problems

By JAMES E. CLARK

WHEN an individual stops blaming other people for his failures and starts blaming himself he begins to make progress. An exposition of this truth on a regional scale is to be found in an article by Dr. John Lee Coulter in this issue of the JOURNAL in which he tells how the farmers of the spring wheat belt in the Northwest are building a new prosperity. There is less tendency out there to attribute unsatisfactory conditions solely to corporations, institutions and things afar, and more of realization that they have at hand the means to create a new and a safer prosperity. They are placing more dependence upon the exercise of their own intelligence and less upon the doubtful magic of proposed legislation.

In price-fixing legislation there is, at the best, but a dim vision of additional prosperity for its most optimistic advocates. On the other hand, there is a clearer picture of confusion, disappointment and loss painted by experienced economists and by practical men of business.

This new era that is opening in the Northwest is one of the indications that, despite the continuance of the effort to improve farming conditions by legislation, there is a growing tendency among the farmers to improve it in their own back lots.

It is along these lines that the American Bankers Association through its Agricultural Commission has long been working to help the farmer to help himself, and its activities through the cooperation of bankers, agricultural colleges and the farmers are bearing fruit. The practicality of this banker-help to the farmer is illustrated also by a campaign the Georgia Bankers Association is carrying on among the cotton planters.

"One of the great needs of Georgia," says C. O. Carpenter, chairman of the Agricultural Committee of the Georgia Bankers Association, "is a broader vision and more leadership among the farmers themselves in solving their own problems."

"Whatsoever a man soweth that shall he also reap," says that association in a circular to the cotton growers of the state.

"Ten years ago cotton grown in North Georgia brought a premium of one cent a pound, \$5 a bale, because of its high quality and good staple uniform in length.

"Georgia cotton has been selling for several years at a discount of one to one-and-a-half cents a pound, \$5 to \$7.50 a bale. The State College of Agriculture reports that the defects found in Georgia cotton by the spinners are short and mixed staple in the same bale, and weak staple.

"As a result of these faults in staple, Georgia mills have had to buy in other states one-fourth of the cotton they have used and the proportion bought outside is steadily increasing. Planting poor seed has cost the Georgia cotton growers a loss per bale of \$5 premium and \$5 to \$7.50 discount.

The loss to the state due to deterioration is estimated at \$7,000,000 annually.

There is many a manufacturer in business today who would have been down and out long ago if he persisted in producing the things that he had been making for years and for which his plant was equipped to produce. He has had to change, adjust and modify and, in many cases, set aside costly equipment and install new machines and new methods at great cost.

In the Northwest we have an exemplification of agriculture readjusting itself as industry constantly does, and in this adjustment and readjustment there is promise of better times in many farming districts.

Spending Millions to Collect Pennies

IN one month there was received at Nashville, Tenn., postoffice mail on which there was a shortage in postage of \$1,002.01, and it cost the government approximately \$4,000 to collect the shortage. The postmaster estimates that the yearly cost to the government in Nashville alone for collecting due postage on letters and parcels which have been mailed with insufficient stamps is \$50,000!

If conditions elsewhere in the United States are comparable, we have the curious spectacle of the People of the United States spending millions of dollars each year to collect pennies from themselves, which millions might be saved by a little more care and a little more fairness—a splendid thing to remember when the usual story goes the rounds about the postoffice department deficit.

The principal reason, in the opinion of Nashville's postmaster, for so many letters and packages in the mail with insufficient postage is the attempt on the part of the senders to impose some of the cost of transportation upon the recipient. But the practice besides causing a foolish waste retards the delivery of all mail.

How Long Can We Stand It?

THE control of the highways of the country is vested in the states and, in time of peace at least, is not a matter for the national government, but it is no wonder that President Coolidge has urged all governors of the states to be represented at a national conference on street and highway safety which is to be held in Washington on March 23, for he says, 24,000 persons were killed and probably over 100,000 hurt by street and highway accidents during the last year.

How great a loss this is may be seen by comparison to the deaths in the World War which amounted to but 126,000 from all causes.

So great a number of killings, even in a population as large as our own, has no justi-

fication. Probably but a small percentage of those killed and hurt lost their lives or their health through the means of purely commercial cars. A larger number were probably killed by what might be termed the pleasure car.

No country is big enough to stand economically so tremendous a drain upon its life blood. No country should be cold enough or indifferent enough to be apathetic to a constant slaughter, needless, and the more inhuman because it goes on largely because of a mania for speed on the part of people who have no genuine reason for speed.

The most deplorable thing about the situation is the indifference of the average citizen to what is going on. He looks upon it as something he is powerless to prevent and something not particularly connected with his own affairs.

If the conference could quicken public opinion, and does nothing else, it would set in motion a corrective force.

The Best Customer

IN every business house in the country policies are likely to a certain extent to shape themselves around the needs, the desires and even the whims of "the best customer." There is no avoiding such a shaping of policies as long as the existence of every business house depends upon its ability among other things to give service to both its best and its smallest customers.

The same psychology must have an influence when trade crosses the borders and, rising above the limitations of individual customers, so groups itself that a whole nation is regarded as a customer.

The United States' best customer is Great Britain. Next to Great Britain our best customer is Canada. For the fiscal year ending with March, 1925, Canada purchased from the United States goods to the value of \$510,003,526, or 64 per cent of her imports, and she sold to the United States \$417,457,171.

In practice and in effect, therefore, Canada, through her sales to us gives us raw materials with which to work, and through her purchases from us she keeps thousands of our people employed at good wages. In effect and practice we give thousands of her people work in producing the things we want and we add to their welfare by sending them the goods that they can not produce themselves.

In the ensuing months we shall probably hear much about plans for enlarging foreign markets for some of our products, but let that not eclipse consideration of the best customer that we have on this side of the Atlantic, and the possibility of making that best customer a still larger factor through a better understanding of the fact that for a part of the prosperity each enjoys, each is dependent upon the other.

A New Era Developing In the Spring Wheat Belt

By JOHN LEE COULTER

President North Dakota State College of Agriculture

Great Region Is Working Out of Its Difficulties and Developing a Safer Prosperity. Less Disposition to Blame Banks and Railroads. People Now Have a Better Understanding as to the Causes of Losses to Farmers. Thus Prosperity Is Returning.

MINNESOTA, North and South Dakota and Montana produce most of the hard spring wheat and the durum wheat which make up such an important part both of the domestic wheat supply and the exportable surplus of the country. They also produce a large part of the rye which provides not alone our domestic supply but also a surplus for world use.

In addition to the bread grains, these states also produce a large amount of feed grains, such as oats, barley and corn. By far the larger percentage of feed, however, is produced in the winter wheat belt. In addition to the production of grain for human food and animal feeds, a number of important special crops are grown, probably the leading one of which is the flax crop, which contributed from twenty to thirty million bushels of flaxseed as the most important raw material supplying linseed oil for use in the making of paint, varnish, linoleum, oilcloth, oil paper, window shades, artificial leather and a multitude of other articles of great importance to the industrial and home life of America. The most significant thing about the production of all of the crops mentioned is that they are planted in the spring, except a small acreage of winter rye, which is a rather recent development.

In the winter wheat belt, if the farmer is unable to plant his entire acreage in the fall, or if his grain fails to develop, or having started to grow in the fall is destroyed during the winter months, he is still in position to plant spring crops. In the spring wheat belt no such opportunity has presented itself in years past, since, if the spring weather is unseasonable and if crops cannot be planted at the usual time, the land is likely to lie idle during an entire year, after much expenditure of time and money in preparing it for the year's crop. Many other differences might be cited, which give a distinct advantage to the winter wheat belt over the spring wheat belt as long as the farmers in the spring wheat belt restricted themselves exclusively to small grain farming.

Troubles Develop

IN all systems of grain farming three outstanding groups of risks must be constantly faced. These are weeds, insect pests and plant diseases. The number of different kinds of weeds is legion. Different types of



soil, different amounts of rainfall and other differences in natural phenomena encourage the developing of different kinds of weeds. In one district there is the Canadian thistle, in another the sow thistle, and in still another the Russian thistle. In one season wild oats may be the greatest menace, and in another season pigeon grass. In one river valley the wild pea is the greatest menace, while in another river valley it is pigweed or kinghead. All of these thrive, naturally, in any system of exclusive small grain farming, especially under a system where all seeds are planted in the spring of the year and where there are practically no cultivated crops, no pasture and hay crops, and little or no live stock. Among the plant diseases may be listed such destructive pests as the rust which attacks the wheat, the wilt which attacks the flax, the scale and scab and smut and ergot and others which do tremendous damage. These also are characteristic of a system of exclusive small grain farming.

A Net Balance

AFTER allowing for the damage done by all of these factors and others, the net balance was still on the profit side of the ledger during the fifteen or twenty years before the beginning of the World War. In North Dakota, for example, there was a steady increase in number of farms, which increase amounted to almost 50,000 farms in twenty years. But year after year new problems were presenting themselves. At the beginning, while the land was new and free from weeds, and plant diseases were practically unknown, the yield of wheat would be from fifteen to twenty-five bushels, while flax would run from ten to fifteen bushels and exceptional years would show still greater yields over tremendous areas. In such a period little thought was given to grades and grading of grains; little thought was given to freight rates and storage charges; not much attention was given to the operation of grain exchanges, with tre-

mendous fluctuations in price. Interest rates, wages and prices paid for machinery or other farm requirements were seldom given a serious consideration. Farmers were too busy extending their acreages, opening up new land, building homes, improving roads, erecting schools and churches, and doing all other things necessary for the building of a permanent civilization.

Two Conflicting Movements

THE year 1915 may be referred to as the last real big wheat crop in North Dakota. The yield for the state as a whole was more than eighteen bushels per acre. Several poor crops had been recorded between 1900 and 1915. Two great conflicting movements were taking place, both of which spelled disaster. On the one side, with weeds and insect pests and plant diseases increasing, and with soil becoming tired from persistent cropping, yields were constantly going down to lower and lower levels. The average yield of wheat for North Dakota for the last ten years, 1916 to 1925, is scarcely ten bushels per acre, and the average yield of flax scarcely seven and one-half bushels per acre. On the other side, interest rates, freight rates, wages and prices of everything the farmer must buy were going up just at a time when farmers could least afford to pay the increased costs. It is no wonder that farmers, and in fact business men and all others actively associated with farmers, should commence to inquire as to the ways and means to bring back the prosperity of former years. It was found that in a sparsely settled country, where farms average nearly five times as large as in the older settled states, the expense of maintaining schools and churches and roads was a very heavy burden upon the land. It was found that freight rates were extremely high, and furthermore that the spring wheat belt was farthest away from centers of population and the seaboard and all of the products had to be hauled tremendous distances. It was found that interest rates were nearly double rates paid in older settled regions, and it seemed that storage charges and charges for handling grain and indeed all other similar items were excessively high. The prices paid for grain were lowest just when the farmer had something to sell, and prices fluctuated tremendously and usually were highest when the farmer had nothing to sell. Small wonder that not only farmers but all others living

in the spring wheat belt should commence systematically to inquire as to why these things should be. Everything seemed to be to the disadvantage of the farmer with ever mounting costs on the one side and ever decreasing yields on the other.

THE farmers and people in general of the spring wheat belt proved themselves to be as capable as the people of any region of this or any other country. Facing what seemed almost insurmountable problems, they have not hesitated, on the one side, to deal with the local problems, or on the other side, to deal with the national problems necessary to bring relief. In 1900 Minnesota was not only the leading wheat state in the United States, but actually produced nearly twice as much wheat as any other state. In 1925 Minnesota has so reorganized her farming system that her wheat acreage is reduced over 75 per cent, and now ten or more states equal or surpass her as a wheat state, but on the other hand, it is likely that a thoroughly accurate report for 1925 would show Minnesota the leading butter state in the United States. Since 1900 Minnesota has increased her acreage of corn nearly 200 per cent. North Dakota, which increased her wheat acreage by leaps and bounds until she led the nation, has within the last five years reduced her wheat acreage between two and three million acres and has made other tremendous changes in her farming system, all looking toward a better balanced system of agriculture. A million acres of corn and a million acres of alfalfa, sweet clover and other tame and cultivated grasses have been introduced. Two fine packing plants are now in full operation, and a dozen large creameries are operating to capacity throughout the year. Similar changes have taken place in South Dakota, and the movement has reached Montana. And so it may be said, on the one side, that the farmers and their friends in the spring wheat belt have carefully analyzed their own problems and are successfully and very rapidly developing an entirely new type of farming, which at the present rate will, within the next five years, place them in the forefront among the American agricultural states, from the standpoint of efficient agriculture. Cultivated crops, such as corn, sugar beets and potatoes, pasture and hay crops, such as alfalfa and sweet clover, and a whole range of live stock, including dairy cattle, beef cattle, sheep, hogs and poultry—these are being introduced into the farming system along with the wheat,

oats, barley, flax and rye, and an entirely new system of farming is rapidly taking the place of the old.

BUT what of the outside problems, what of speculative markets, excessive interest rates, tremendous freight charges, high taxes, wages which could not be paid under the old system of farming, and excessively high prices for everything which the farmer must buy?

It is recognized that the spring wheat group of states is farther away from the great consuming centers and the export centers than any other part of the United States. This has meant tremendous charges for freight. This is being dealt with in two ways—on the one side, instead of shipping bulky products of low value, the feed crops are being converted into choice baby beef, lambs, butter, poultry and eggs, honey and wool. All of these are products which bring on the market from 10 cents to 50 cents per lb., whereas wheat, flax, rye, oats and barley brought only from 1 cent to 5 cents per lb. On the other hand, the entire spring wheat belt is fighting for access to the seaboard by way of the Great Lakes and St. Lawrence and by way of the Mississippi and Missouri Rivers. They will not be satisfied until these two great movements have brought satisfactory results.

It is recognized that in a new, undeveloped country interest rates are unusually high because risks are unusually great, but with the new system of farming, which is so rapidly being introduced, it is felt that interest rates should rapidly be reduced to a basis comparable with that found in older, settled districts. It should no longer be necessary to charge 8 per cent or 10 per cent or 12 per cent for money loaned for the development of agriculture in the spring wheat belt when 4 per cent, 5 per cent and 6 per cent are rates more commonly found in older, settled areas. The farmers are already coming to realize also that a mistake was made in establishing such a large number of banks. Literally hundreds of banks dot the countryside; the average volume of business is small; the overhead or cost of operating the bank is large. The last session of the legislature of North Dakota took the first step looking toward the consolidation of small local banks in the belief that with improved roads and with other improvements rapidly taking place, a smaller number of larger banks could render greater service to the farmers, and that lower rates of interest and better facilities would result.

IT is realized that with the old system of small grain farming, there was little need for labor, except during the rush season of the year. Literally trainloads of special labor had to be brought into the district. They were paid high rates of wages by the day. Under the newer system of farming, with work to be done every day in the year, a rapid change is taking place, and farmers are employing laborers on the basis of the entire summer season of seven months, or indeed on the basis of twelve months in the year. Instead of paying from \$4.00 to \$7.00 per day during harvest and threshing, the wages paid by the month amount to about \$2.00 per day for the working days in the year. The shutting out of all immigration came at a particularly distressing time, from the standpoint of agriculture in the spring wheat belt. It would have been much better for the farmers of the spring wheat belt if agricultural laborers from Europe could have been permitted more easy access to this country.

Taxes are high or low, depending upon the profitability of the business. With prices of farm products low, with yields very low, and with costs very high, the taxes not only seemed but were relatively a tremendous burden. With costs being reduced, with yields being increased and with prices of farm products improving, the tax problem may still be solved, on the one side, by such reductions as can be made, and on the other side, because farm income will make possible the payment of reasonable taxes for useful services.

And so we may go on through the entire series of problems, both within the district and the relationship of the district to the nation and the world at large, and it will be found that a new era is developing in the spring wheat belt. Conditions at home are being dealt with by the farmers in a masterful manner, and relations with other parts of the nation and the world are likewise gradually yielding to treatment and more satisfactory relations will doubtless maintain. It is quite true that for a time a very large element of the population was inclined to place the blame not on weeds and plant diseases and pests, nor on distance from market, newness of country, sparse population, and excessive number of banks. They were inclined to place the entire blame on railroads, big banks, grain exchanges, etc. More and more, however, while securing certain state and national reforms, they see that much can be done at home, and they are doing it and prosperity is returning.



Bank Receiverships Minus Politics

By C. M. HARGER

Kansas Has a New Plan for Liquidating Failed Banks. Expense of Employing Several Persons to Wind Up the Affairs of Each Institution Is Avoided. State Bank Commissioner Is the Receiver for All and Passes on All Important Matters.

ONCE a bank receiver came to the end of his labors and had 100 accounts which were to be put into the form of judgments. He was advised from somewhere "higher up" to employ a firm of distinguished lawyers, also distinguished politicians. He discovered that to do so would entail a fee of \$5,000. He went to a young lawyer. "What will you take to have your stenographer make 100 copies of a petition, changing only the name and amount in each case, and file the same in district court and at the next term get judgment?" It cost \$150. The bank's depositors received 100 per cent on their claims. But that was an exception and the receiver was of the "old-fashioned" sort.

Kansas has had nearly 100 state bank suspensions in the past five years. Many institutions were small affairs but nevertheless needful to the communities and their losses meant inconvenience and suffering. Yet in some of these failures were incurred expenses for individual receivers that ate up all the assets, leaving the guaranty fund, already overdrawn, to pay the depositors—sometime, if ever. Attorneys were engaged at \$500 a month for comparatively small banks; receivers with no banking experience whatever drew \$250 a month for sitting at a desk and waiting for time to pass; relatives who could not operate a typewriter, to say nothing of bookkeeping or shorthand, were on payrolls. In one instance assistants to the receiver collected such bills as: Laundry twelve days, \$12.51; pressing pants, \$7.50; drugs, \$7.35; limes, 30 cents; tailor, \$40; tickets, \$34.43; rooms at hotels at \$10 a day, with cafe service extra. Attorneys' fees ran to \$41,547. The total expense of the receivership was \$135,692—not so much perhaps considering the \$2,000,000 loss, but nevertheless quite a sizable sum of money.

Discharged Many Receivers

WHEN Roy L. Bone became bank commissioner, early in 1925, he determined to cut the costs of receiverships, no matter how many politicians or attorneys were grieved by the proceeding. He discharged the scores of local receivers and appointed William Docking, a banker of experience, as general receiver for the whole list of failed banks. This was an innovation—but it worked, and it has taken bank receiverships out of politics for the first time in the history of Kansas. This means that officers, examiners and employees are selected for fitness and it avoids the appointment of an incompetent or inexperienced man simply because there is a demand from the political boss of some county to "give him a job."

It is realized that many of the failures are not the result of crookedness. Mostly they are caused either by insufficient volume of business—Kansas has 1013 state banks—or their managers have been without real banking experience. Hence the settlement of their affairs calls for simple processes, the collecting of local paper and distributing the returns to the depositors. Expensive attorneys are not necessary; high-priced experts are not needed.

"The causes of failure," said Mr. Docking, "are invariably a condition that has existed a considerable time before the collapse, often several years before. No recent failure in Kansas is chargeable to anything that happened within the past two or three years. Hence it is not difficult to analyze the conditions nor to plan a method of liquidation—generally the same applies to every bank."

When Mr. Docking took charge of this Department of Insolvency, as it may be called, he gave notice that no politicians need apply. Here is his procedure:

On failure of a bank a competent examiner takes temporary charge and makes an examination of the affairs and prepares a transcript of assets and liabilities. In the meantime an assistant receiver, chosen for his fitness and ability, is selected to take over the estate. He works for the first ten days with the examiner to become familiar with the conditions and paper. The examiner's transcript goes to the general receiver at Topeka. A reasonable monthly salary is fixed for the assistant receiver; a local lawyer is hired, signing a contract to make reasonable charges for work actually required, his charge subject to the approval of the general receiver whose decision shall be final. This one provision has cut down legal fees more than fifty per cent.

General Receiver Passes On All Claims

ALL important matters of the liquidation are referred to the general receiver. He passes on all claims, issues certificates of indebtedness under the guaranty law, approves all sales of property and decides all questions of compounding of indebtedness from insolvents. All trust funds are sent to the general receiver and deposited in various banks under surety bonds in the name of the bank commissioner. Dividends are paid from the general receiver's office and constant touch with all estates maintained.

Two examiners are appointed, one to audit each estate at least twice a year, copies being filed with the district court of the

county in which the bank is located, the other to help assistant receivers with their work and make confidential reports to the general receiver, dealing with values and methods.

The expense of the general receiver's office is assessed against the estates in proportion to the actual work required. At the first of the year the highest assessment against any failed bank was \$35 a month and for the least active estate \$15 a month. Compared with the handsome sums local receivers and attorneys formerly received this is a marked reduction. The expense tends downward as the estate is liquidated. When it comes to a point that it is settled except for court matters or a few unsettled claims the papers are taken to the capital and all expense ceases.

The general receiver is a continued official; he can be dismissed from any estates as is convenient, and can serve in inactive estates without cost. He is paid a fixed salary, with his other expenses from the assessments mentioned. He has now in his hands forty-nine estates, about thirty-one of which can be called active liquidations. The closing of the others being held up by court matters or other unavoidable delay.

Produces More for Creditors

THE system, which is a Kansas invention, cannot be called perfect—few things are in this world. But it has eliminated all graft and manipulation, is expediting the settlement of the estates of failed banks and producing more for the creditors than under the old method followed. In some of the long dragged out liquidations taken over very little value was left when they came to the general receiver and this value could not be put back. In the more recent failures the advantage of the new method of handling is quite apparent.

Mr. Docking, from his experience in handling the failed banks of his state has decided that much of the loss could be avoided by prompt action when a bank is in difficulty, rather than giving it time to attempt to work out its own salvation. He says: "It has been the policy of practically all state banking departments and of the national department to permit an insolvent bank to stay open to the last day it is possible. Many banks that have been closed in recent times should have been closed years before, and the community then would have suffered only a small fraction of the loss that has resulted. The object clearly has

(Continued on page 588)

The Coolidge Half-Dollar to Appear

By LEWIS ALEXANDER

Likeness of President To Appear on Special Coin To Be Minted To Commemorate the Sesqui-Centennial of American Independence. More Commemorative Coins Sought by Members of Congress. Eleven Specials Being Offered.

A COIN bearing the profile of President Coolidge will be struck off by the United States Mint during 1926. A model for a silver half-dollar has been designed by John S. Sinnock, the engraver of the Philadelphia Mint, and has been approved by the Commission of Fine Arts and the Secretary of the Treasury. The coin, which doubtless will be popularly known as the Coolidge half-dollar, will be issued in connection with the Sesqui-Centennial international exposition at Philadelphia, which commemorates the 150th anniversary of the Declaration of American Independence.

It will be the first time that a likeness of a living President has appeared on the face of a Federal coin. While several of President Coolidge's predecessors in the White House have been honored after their death by having their profiles cast on the nation's coins, none has ever been honored thus during his administration as chief executive. The Alabama half-dollar, which was issued in 1921, bore the likeness of a living governor, however. Within recent years, commemorative coins to Grant and Monroe have been struck off while one of the early coins of this character was devoted to the martyred president, William McKinley. Relatively few of the Presidents have been assigned a place on the fractional coinage of the country.

The popularity of President Coolidge is expected to be a factor in the sale of the fifty-cent pieces, which are to be distributed at a premium by the officials of the Sesqui-Centennial. The coins will be worth only their face value in general circulation but it is expected that they will be sold to the public for \$1 each, the premiums being set aside in a fund to help in defraying the expenses of the exposition which is scheduled to open next summer. It is anticipated that there will be a ready demand for the special coins by those who wish to have a

souvenir of the Sesqui-Centennial and by the legion of coin collectors.

The mints during the past year coined four special half-dollars.

The Philadelphia mint struck off 2,314,709 Stone Mountain half-dollars that bear the likenesses of General Robert E. Lee and Stonewall Jackson. It executed 162,098 Lexington half-dollars to commemorate the stand of the minutemen in Massachusetts, who "fired the shot heard around the world." The San Francisco mint coined 142,200 of the California half-dollars that

bills introduced both in the Senate and in the House of Representatives calling for the authorization of more commemorative coins. Secretary Mellon has written a letter to the committees having jurisdiction over the matter, reciting the objections of the government to the issues and questioning the advisability of devoting the use of Federal coins to the raising of funds for the promotion of movements that are not wholly public in their nature. Furthermore the Secretary points out that the popularity of the commemorative coins

has not been great enough in most instances to justify their execution. As a rule, thousands of the special issues have ultimately come back to the mints to be melted up because buyers have not been found willing to pay the premium.

As a means of satisfying the popular demand for some action by the Federal government to celebrate the anniversaries of outstanding events in American history, the Treasury suggests that medals,

Underwood & Underwood

The commission that approves all designs for coins. The members are, left to right, James L. Greenleaf, Louis Ayres, H. Siddons Mowbray, H. P. Caemmerer (Secretary), Charles Moore (Chairman), Milton B. Medary, Jr., William Adams Delano and Lorado Taft.

were issued to celebrate the golden jubilee of that state's admission to the union, while about fifty thousand Vancouver half-dollars have been minted to observe the establishment of the outpost in the northwestern part of the United States, Fort Vancouver.

One special coin that is expected to make its appearance soon is the half-dollar commemorating the battle of Bennington, Vermont. It was authorized at the last session of Congress.

Although the Treasury Department has sought to discourage the issuance of special coins because this practice makes it more difficult to preserve the integrity of the Federal coinage and generally involves an additional expense to the government because the coins minted have to be re-melted when they are not sold, it seems that proposals for special issues are growing in number instead of diminishing. Since the opening of Congress, there have been a number of

such as were struck off last year in connection with the Norse-American Centennial, take the place of the special coin. The mints are equipped to make medals as this work comes within their own province.

There will be another special coin for the Sesqui-Centennial. Congress has authorized the minting of a \$2.50 gold piece but thus far the models for the little gold coin have not been prepared.

There are several stages in the making of any coin, one of the first being the submission of the models to the Commission of Fine Arts. This commission was set up under the Roosevelt Administration after the President undertook to improve the artistic qualities of our coins, public buildings and other Federal properties. Charles Moore, who once engaged in banking in Detroit, is chairman of the commission, which is composed of six others. Eminent sculpt-

(Concluded on page 594)

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"Your Transit Machine has speeded up the work in our Transit Department, allowing one clerk to handle the transit in two hours, leaving the balance of her time to be used for duties in other departments."

—*The First National Bank, Gardner, Mass.*

"Our Transit Department is equipped with twelve numerical transit machines which write many thousand transit items daily—in fact, so completely have we adopted the Numerical System of handling transit letters that all the machine work is done on this style machine."

—*The Atlantic National Bank of Jacksonville*

"We have had our transit machine for approximately two years and desire to state that it is a great improvement over the old system of writing in the description by hand. The machine does it in approximately one half the time and makes an extremely neat appearing letter."

—*Natick Trust Company, Natick, Mass.*

"In our Transit Department three Burroughs Numerical Transit Machines and one Burroughs Moon-Hopkins Transit Machine are handling an average of 7,000 items daily with a maximum peak of 12,000 items. The machines reduced our clerical help 50 per cent."

—*Old National Bank of Spokane*

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STATEMENT OF CONDITION

At the close of business, December 31, 1925

ASSETS

Loans and Discounts	\$116,945,584.15	
U. S. Bonds and Certificates	6,043,258.75	
Other Bonds and Investments	10,253,587.74	
Banking House	1,500,000.00	
Acceptances	10,360,981.49	
Cash and Due from Banks	53,702,383.13	
Other Assets	551,869.63	
		<u>\$199,357,664.89</u>

LIABILITIES

Capital Stock	\$4,500,000.00	
Surplus	16,500,000.00	
Undivided Profits	1,550,664.44	\$22,550,664.44
Reserved: Taxes, Interest, etc.		799,415.73
Circulation		349,997.50
Acceptances		12,594,865.01
Other Liabilities		429,824.53
Deposits:		
Individuals	\$116,872,955.68	
Banks	45,759,942.00	162,632,897.68
		<u>\$199,357,664.89</u>

**THE
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have had an opportunity in advance to study the outline of the topic as presented by the speaker, will ask questions to develop the most pertinent angles of the main subjects. This plan will permit anyone in attendance to participate in the conference.

The tentative programs indicate that a wide range of subjects will be covered at each of the conferences, which naturally will concentrate on the questions that are of most immediate importance to the banks interested in the savings business in the respective sections. Up until the present time, few of the savings banks and savings departments have made cost analyses of handling savings accounts and nearly every institution has readily accepted small accounts without raising the question of incidental expense. It is planned to bring out just what the costs are so that the savings institutions may effect all possible economies.

THERE has been a steady improvement in the mechanical facilities that have been perfected to handle savings. The conferences purpose to reveal how the bookkeeping machines, the unit systems and other systems can be used to speed up the work and improve the accuracy in the savings departments. At the Portland conference, it is anticipated that there will be some consideration of departmental banking, under which there is a segregation of savings deposits from the other assets of commercial banks, as Oregon now has a state law requiring this form of banking. A discussion of how the soldier bonus certificates, upon which loans may be made in 1927, are to be handled is scheduled, as well as the protection of the guileless savings depositor from the promoters of questionable investments. The continuous growth in time deposits and its effect upon the investment policies of savings funds are to have a place on the program, as well as the forms and methods required for the figuring of interest on savings accounts.

JOHN F. DALY, president, Hibernia Commercial and Savings Bank of Portland, is chairman of the executive committee having in charge the Pacific regional conference, while Henry C. Brent, president, Fidelity Savings Trust Company, Kansas City, is similarly identified with the mid-western meeting. Thomas I. Miller, vice-president, The Citizens and Southern Bank, of Atlanta, is chairman of the southern regional conference.

An invitation has been extended to all member banks of the American Bankers Association to send representatives to any of the conferences, as well.

Member banks from seven states will participate in the Portland regional conference—Washington, Oregon, California, Idaho, Montana, Utah and Nevada. Representatives from Arkansas, Illinois, Wisconsin, Michigan, Minnesota, Iowa, South Dakota, Nebraska, Kansas, Oklahoma, New Mexico, Colorado, Wyoming, Missouri, Arizona and Indiana will attend the Kansas City conference, while member banks in Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, Louisiana, Tennessee, Kentucky and Texas will be invited to attend the Atlanta regional conference.

Three Regional Conferences on Savings

THE costs of handling savings accounts and the improvement in the mechanical facilities for handling them will be two of the important questions that are promised for discussion at three forthcoming regional savings conferences to be held during February and March under the auspices of the Savings Bank Division of the American Bankers Association. The initial conference will be held at Portland, Oregon on February 25 and 26. Representatives of banks in the middle western states will gather in Kansas City, Mo., on March 4 and 5, while there will be a southern regional conference at Atlanta, Georgia, on March 11 and 12.

At this time, the complete programs for

the meetings have not been announced. Thomas F. Wallace, treasurer, of the Farmers and Mechanics Savings Bank of Minneapolis and President of the Savings Bank Division, will preside over the business sessions at all three conferences. The object of the meetings will be to present definite and detailed information on savings bank operations that can be applied with profit by the institutions sending their representatives to the gatherings. As it has been found at previous conferences that a general discussion of the subjects presented by the speakers produces the most tangible benefits, the conferences will be run on the open forum plan. A quiz leader, who will



The Northwest Room in the offices of the American Woolen Company, Shawsheen Village, Mass., is floored with Armstrong's Cork Tile, 12 x 12-inch light and dark shades, laid diagonally, with a three-strip border.

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A FLOOR of Armstrong's Cork Tile in the directors' room, office, or work space of a bank appeals very strongly to a business man's sense of fitness. Armstrong's Cork Tile is a floor that is architecturally correct. It is tile and therefore has the distinctive appearance of hand-laid design and workmanship. Its three soft shades of brown are pleasing in themselves and harmonize well with almost any furnishings or decorative plan. From the point of view of appearance, Armstrong's Cork Tile floors are unusually attractive.

But even more than appearance, a banker appreciates two other outstanding qualities of Armstrong's Cork Tile. It is noiseless and very

comfortable and easy underfoot. It is cork—not a composition, 100% cork. It is resilient and "springy," and yields just enough to the tread to prevent all sense of strain and fatigue from standing or walking about. A quiet floor is always desirable and a comfortable floor especially is so in offices, work spaces, and cages where employees are so much on their feet.

Another factor is the economy of the floor. Armstrong's Cork Tile is remarkably durable and resistant to wear. It is not readily stained or marred, is easily cleaned, and needs no waxing, polishing, or varnishing.

A sample tile with a copy of the book, "Armstrong's Cork Tile Floors" will be sent on request.

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Americans always at Home where there is an American Express office:—"I do not know what the American traveler abroad would do without this helpful service of yours. It is certain that his path would indeed be a rough and rugged one."

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Flowers to Constantinople:—"I desire to express by deep appreciation for your courtesy in accepting the commission to deliver some flowers to my wife in Constantinople, and also to congratulate you and your Company upon the wonderfully efficient organization you possess. '.....' under whose auspices the Tour is conducted, could do nothing for me. Four leading florists were consulted without success and when I received a cable saying 'Flowers received' I felt as though every one ought to know the American Express."

Tact, Efficiency, Kindness:—"As former ambassador of the United States, as a fairly wide traveler, and as a friendly client, may I express

my great appreciation of the courtesy and efficiency of your Rotterdam office. I called there a few days ago, unknown, at closing time, with a letter of credit and a long distance emergency telephone call to be sent to Brussels. The tact, efficiency and kindliness of that staff deserves from me this acknowledgment."

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A Helpful Personal Interest:—"I greatly appreciated the courtesy which you showed me in handling the details entailed in cabling the money to the Argentine. It is a rare experience to find so large a corporation as yours giving a customer a feeling of personal interest."

American Express Co.

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OFFICES IN ALL THE PRINCIPAL CITIES

An Industry Which Sprung From a Garden Crop

By C. B. SHERMAN
U. S. Department of Agriculture

The Total Farm Value of Last Year's Rice Crop Was Nearly Fifty Million Dollars. Credit Aspect of the Industry and the Efforts That Are Being Made to Improve the Position of the Crop. Impending Changes in Grading. Testing Machine Developed.

AMONG the food grains of the world rice holds an important place. In portions of the coastal plain of the South Atlantic and in portions of the Gulf States rice is the most important local crop because it can be more profitably grown on these lowlands than any other crop for which there is a market in the United States. In some parishes and counties in Southwestern Louisiana and Southeastern Texas over 75 per cent of the cultivated land is used for rice growing and the rice crop is almost the only source of income. By October, this year, the Intermediate Credit Bank of New Orleans had loaned nearly a million dollars on the local 1925 rice crop, although rice was moving freely, and before the end of the calendar year it had loaned about \$230,000 on rice stored in warehouses.

The history of rice growing in this country reads like a romance. Rice production began in the South Carolina colony as a result of an experimental sowing in the governor's garden in Charleston in 1694. The crop grew so rapidly and our colonial population was so small that the greater part was exported at an early date to the ready market in England. By 1712 over 3,000,000 pounds of cleaned rice were shipped abroad. The great rice fields gradually extended along the coastal plain and the early story of rice culture is linked with the history of those vast lowland plantations with a regal ante bellum plantation life rich with color and tradition, and with a picturesque system of agriculture that included flooded fields, sluices, levees, barges, water gates, and hundreds of negro slaves. So great was the heat and humidity during the growing season that the planters' families with large retinues of house servants regularly moved to summer homes among the sea islands along the coast.

After the Civil War, loss of property and equipment and scarcity of money and labor in this region greatly decreased population

but along the Gulf rice production greatly increased partly because it required less labor than did sugar cane. In 1889, Louisiana became the leading rice-producing state—a rank it still holds. Following this success, rice-growing swept into the neighboring regions of Arkansas and Texas.

Then in 1912 the first commercial rice crop was grown in California largely as a result of studies and experiments made by the United States Department of Agriculture. Ten years later California ranked second in rice production, although the acreage lies principally in seven counties

standard grades and a definite basis is provided for a valuation in making loans. All factors in the rice industry are gradually realizing their value—planters, warehousemen, bankers, dealers, and millers.

All of the regularly organized milled rice grading agencies in the country are now using these standards as a basis for grading. These agencies are the Rice Millers' Association with headquarters at New Orleans, the New Orleans Board of Trade, the Houston Merchants' Exchange at Texas, the San Francisco Chamber of Commerce, and the Grain Inspection Section of the

California Department of Agriculture. Inspection service according to the United States grades for milled rice can now be obtained from almost any point in the rice belts, as either inspectors or samplers of one or another of these agencies are located at all of the principal rice shipping and receiving points.

The development of the intermediate

Credit Banks has opened up a new source of credit to the rice growers, which has brought with it certain other advantages as well. In making crop production loans the executive committee of the Intermediate Credit Bank of New Orleans follows the budget system. When a grower applies for a loan, the secretary of the agency through which he makes application goes over the matter fully with him and they determine the funds that will be needed for planting, cultivating and harvesting. They apportion the expenses—so much for labor, so much for seed, so much for fertilizer, etc. They then indicate in the application, under the budget of advances, the proportion of the loan that will be needed in February, in March, in April, etc. These loans are for six to nine months and are secured by crop liens and chattel mortgages. After the application is approved by the Intermediate Credit Bank the bank remits to the agency on the first of each month the amount called

(Continued on page 576)



Shipping Rice by Steamboat to New Orleans.

only. The total farm value of the crop in the United States last year approached fifty million dollars.

Standards Provide Loan Basis

THE outstanding need of the rice industry in this country during recent years has been for standardization. Accordingly the Department of Agriculture conducted thorough-going investigations which resulted in the promulgation of United States standard grades for both rough and milled rice. Use of these grades is not compulsory under the United States grain standards act for all rice shipped in interstate commerce as are the grades for most other cereals, because of lack of funds to enforce them, but they are compulsory for graded rice stored in warehouses licensed by the government and they are urgently recommended by the Department for general use. Many disputes regarding quality of deliveries are avoided by the use of

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New Bank Tax Decision by Supreme Court

THOMAS B. PATON

General Counsel, American Bankers Association

A NEW decision has been handed down by the Supreme Court of the United States involving the interpretation of section 5219, U. S. Rev. Stats., relative to the state taxation of national banks, in a case brought before the Court by a national bank in Iowa. The First National Bank of Guthrie Center v. Anderson (decided Jan. 4, 1926).

The bank alleged that it was discriminated against because the tax levied on its bank stock for local, county and state tax purposes for the year 1920 was 143 and 5/10ths mills on the dollar whereas a levy of only five mills on the dollar was imposed upon notes, mortgages and other evidences of debt including investments of individuals in interest-bearing securities constituting moneyed capital in the hands of individual citizens engaged in competition with the bank, the total amount of such competing moneyed capital in the County of Guthrie Center aggregating, it was alleged, more than \$5,000,000. The county officers interposed a general demurrer to the bank's petition and judgment sustaining such demurrer was affirmed by the Supreme Court of Iowa.

The judgment of the Iowa court is reversed by the Supreme Court of the United States which means that if the bank can prove its allegation that competing moneyed capital of a substantial amount is taxed at only five mills, the higher tax imposed upon the bank stock is a discrimination in conflict with the restriction in section 5219 and will be held invalid.

The case was decided under the restrictive provision of section 5219 as it existed before the amendment of March 4, 1923. Such provision with the 1923 amendment shown in italics is as follows:

"In the case of a tax on said shares the tax imposed shall not be at a greater rate than is assessed upon other moneyed capital in the hands of individual citizens of such state coming into competition with the business of national banks: *Provided that bonds, notes or other evidences of indebtedness in the hands of individual citizens not employed or engaged in the banking or investment business and representing merely personal investments not made in competition with such business, shall not be deemed moneyed capital within the meaning of this section.*"

Concerning the effect of this amendment, the Supreme Court says:

"The defendants say that this reenactment was intended as a legislative interpretation of the prior restriction, and that the proceedings resulting in its adoption so show. But, assuming that this is true, the situation is not changed; for the reenactment did no more than to put into express words that which, according to repeated decisions of this Court, was implied before. In *Mercantile National Bank v. New York*, supra, where the terms and purpose of the restriction were much considered, it was distinctly held that the words 'other moneyed capital' must be taken as impliedly limited to capital employed in substantial competition with the business of national banks. In later cases that definition was accepted and given effect as if written into the restriction. It, of course, would exclude bonds, notes or other evidences of indebtedness when held merely as personal investments by individual citizens not engaged in the banking or investment business, for capital represented by this class of investment is not employed in substantial competition with the business of national banks. Thus in legal contemplation and practical effect the restriction was the same before the reenactment as after. What bearing a different legislative interpretation might have on a tax already levied, as here, need not be considered."

Deciding the case upon the above understanding of the congressional restriction the Court holds that the allegations of fact in the bank's petition, admitted by the demurrer, show that the tax on the bank's shares, which the state court regarded as authorized by the state law, was imposed contrary to that restriction.

State Bank Division for Credit Files

ALL state banks are to be urged to maintain credit files, containing financial statements and other information regarding all borrowers who obtain unsecured loans in excess of \$500, as the result of the action taken by the Executive Committee of the State Bank Division at its mid-winter meeting held at New Orleans on January 22 and 23. The maintenance of credit files will enable bank examiners to spot the duplicate borrowers and thus place a check on this evil, which menaces sound banking.

Besides taking this action, the committee adopted resolutions renewing the endorsement of the McFadden bill, with the Hull amendments curbing branch banking; pledged the hearty cooperation of states banks to assist in bringing about the orderly marketing of agricultural products; and declared that, since it is the custom of the American Bankers Association to alternate among the divisions in the selection of the second vice-president, the State Bank Division would expect to have this general officer selected from the ranks of the state bankers at the next annual convention and concluded that Craig B. Hazelwood, vice-president Union Trust Company, Chicago, and a past President of the State Bank Division, is the logical candidate to be proposed for election at the Los Angeles convention.

M. H. MALOTT, president, Citizens Bank of Abilene, was elected to be Chairman of the Executive Committee to

succeed Charles S. McCain, who recently retired from the presidency of the Bankers Trust Company of Little Rock, Arkansas, to become vice-president of the National Park Bank of New York City. Mr. McCain's resignation as chairman of the Division's Executive Committee was accepted with regret. M. Plin Beebe, president of the Bank of Ipswich, South Dakota, was made a member of the Executive Committee to fill the vacancy created by Mr. McCain's resignation and Hugh H. Saxon, vice-president of the Continental and Commercial Trust & Savings Bank of Chicago, was appointed chairman of the Federal Legislative Committee of the Division to succeed Mr. McCain in that capacity.

Support for the McFadden bill, which is now pending before Congress, was pledged in a resolution.

On orderly marketing the Committee declared that "the bankers fully realize that bankers and farmers are partners—what vitally affects one affects the other. We are sympathetic with any plan that will work out a greater stabilization of prices for agricultural products in harmony with sound economic principles, and we pledge our hearty cooperation in helping bring about a solution of this problem."

THE desirability of having all state banking commissioners require banks to maintain credit files was presented by Mr. Malott, as Chairman of the Public Service Committee of the Division. He pointed out

that regulations requiring a file on all borrowers who have a line of credit of \$500 or more had been promulgated by the State Bank Commissioner of Kansas as a forward step in the supervision of banks and urged the division to advocate its extension to other states. The executive committee voted to recommend that the commissioners in all states be asked to take similar action so that the practice might become uniform throughout the country.

The meeting was attended by the following members of the executive committee: M. H. Malott, president Citizens Bank, Abilene, Kansas; E. E. Crabtree, president Farrell State Bank, Jacksonville, Illinois; S. J. High, president Peoples Bank and Trust Co., Tupelo, Mississippi; H. H. Saxon, vice-president Continental and Commercial Trust and Savings Bank, Chicago, Ill.; Dan V. Stephens, president Fremont State Bank, Fremont Nebraska; Grant McPherrin, president Central State Bank, Des Moines, Iowa, and G. E. Bowerman, vice-president Fremont County Bank, Sugar City, Idaho.

Two past presidents of the division—Rudolph S. Hecht, president, Hibernia Bank and Trust Company, New Orleans and Craig B. Hazelwood, vice-president, Union Trust Company, Chicago—were present. F. N. Shepherd, Executive Manager of the American Bankers Association and Frank W. Simmonds, Deputy Manager in charge of the State Bank Division, attended the sessions.

ALL IN THE DAY'S WORK



HELPFULNESS

8 A. M.—Guardian representatives go out with B/L and other collection items received in the over-night mail, in order to assure prompt report and credit to correspondent's account.

9 A. M.—Down-state correspondent telephones for report on foreign trade fields of interest to a customer firm; Guardian Bank secures and forwards latest report on the field.

1 P. M.—Valuable credit information secured and forwarded by wire to a correspondent bank, a customer of which has an important order pending.

WHEN the affairs of Guardian correspondents call for prompt and intelligent action at Cleveland, it is reassuring to know that banking, trust, investment or organization problems, coming by mail or wire, receive immediate, experienced, and conscientious attention at The Guardian Bank.

GUARDIAN TRUST COMPANY CLEVELAND

Resources More Than \$120,000,000

Warns Germany Against Too Much Outside Help

President of the German Reichsbank Says That Nation Should Rely Primarily on the Recreation of Capital at Home. Views With Optimism the Eventual Effect of Prevalent Failures. Reichsbank a Reliable Mirror of German Economic Conditions.

"GERMANY'S economic situation at the beginning of 1926 shows many unfavorable features," said Dr. Hjalmar Schacht, president of the German Reichsbank, in a statement issued early in the year. "But it is a mistake to follow numerous recent press utterances and economic specialists regarding this situation as being without factors of hope. One can by no means complain of a lack of symptoms foreshadowing favorable developments in the future.

"Owing to the interdependence of her economics with those of the outside world, Germany's fate will be largely governed by the development of international relations. This is today truer than ever, because since the war international relations have played a determining rôle in business. Some time ago Germany's economic prosperity seemed to have been fatally injured by the Versailles Treaty and by the Ruhr occupation. But later international developments have had beneficial results. Just as the Dawes Plan marked the first abandonment of the policy of force, so the later agreements of Locarno provided a further important step toward international tranquillization. These agreements guarantee the emancipation of business from political disturbances. The agreements were signs of recovering confidence, of an increasing realization of the interdependence of individual countries in economic matters.

A Mirror of German Progress

"IN present conditions the German Reichsbank is, despite certain qualifications, a reliable mirror of German economic processes. Up till now the bank has developed satisfactorily. Since the beginning of 1925 its gold reserve has risen from 760 million to 1208 million marks; and its reserve of foreign exchange, after an appreciable decline in the spring and summer of last year, has again considerably increased, so that it now actually exceeds the level of the end of 1924. Our total currency circulation, which (ignoring the small fluctuations which occur every month) rose from approximately 4,250 million marks at the end of 1924 to 5,000 millions at about the end of August, 1925, has not since increased. The securing of the Reichsbank notes with gold and foreign exchange has not undergone any very great change; in the last few months it slightly improved, from 58.7 per cent of the circulation to 62.4 per cent.

"A vital factor of our currency situation is that since the beginning of June, 1924, we have been able to sell exchange to ap-

plicants without any limit; and have thereby prevented the sinking of the mark's exchange from parity, whether at home or abroad. This is all the more noteworthy, because the compulsory convertibility of the bank's notes into gold or exchange is suspended. We however have in practice a condition which is identical with convertibility. This results from the fact that we deliver foreign currency to any amount against payment in marks. A feature which is not only absurd but is also prejudicial to our future healthy development is the practice of certain business firms of expressing their contracts in foreign currencies; it is doubly regrettable that such distrust in our currency stability is expressed mainly by native firms.

Criticism of Credit Policy

"THE credit policy of our Reichsbank has been subjected to severe criticism in certain quarters. In order, however, to judge this credit policy rightly, one must take into account not only the discounts and loans of the Reichsbank, but also the credits granted by the Rentenbank, by the private note banks, and by our new Gold Discount Bank. The total credits of these institutions and of the Reichsbank taken together rose between the end of 1924 and the end of September, 1925, from 3,000 to 3,400 million marks. Under influence of the new flood of foreign loans which resulted from the Locarno Pact, the volume of credits declined to 2,900 million marks at the beginning of December, 1925. This decline is highly gratifying.

"The question of a reduction of the Reichsbank's discount rate has of late been very urgent. At the last meeting of the Reichsbank Central Committee the directorate declared that no such measure could be taken in view of the impending year-end credit pressure. The directorate added that once the year-end settlements had been put through, the question of a reduction of rate would be again taken up for consideration. Meantime the bank took an important step by relaxing the severity of its restrictions upon the volume of permissible credit. These restrictions, in the shape of a rationing of credit, exist since 1924. It is impossible to foresee whether this relaxing of our credit restrictions will lead to an increase in the demand for credit. But it is essential to the working of the new system that we shall not suffer either a rise in our price level or a weakening of our position as holders of foreign exchange.

"Advocates of a reduction of Germany's

discount rate point to the prevailing abundance of liquid cash and to the great disparity between our private discount rate, which is 6¾ per cent, and our bank rate, which is 9 per cent. This abundance of liquid cash is a fact. But one must not draw from it the conclusions which would be drawn in normal times. In contrast with the superfluity of short-term money, which is a result of various circumstances (public monies which are temporarily lent out, foreign credits, etc.) we have the opposite condition in the long-term credit market. In Germany it is still extremely difficult to obtain long-term loans; and the interest yield of first-class mortgage bonds is still as high as 10 per cent, and has not fallen since March, 1924.

Low Level of Stocks

"ANOTHER indication of our shortage of capital is the low level of stock quotations. The quotation value of those stocks which are quoted "variably" (i. e., the leading stocks) on the Berlin bourse fell from 6,200 million marks at the beginning of 1925 to 4,200 million marks at the end. This bourse depression is not a truthful mirror of our economical condition. It is in great part due to technical conditions. But the interest of the general public in stocks as an investment for capital is almost paralyzed, not only by uncertainty regarding the payment of dividends, but also by the prevailing capital famine. Also foreigners as a rule abstain from buying German stocks. Those who desire to put capital in Germany prefer immediately realizable private discounts. We have no longer the great stock-buying class which formerly existed; and as result of this the offer of a very small parcel of stock often leads to an appreciable decline. Nevertheless, from point of view of industrial production the present extreme bourse depression is unjustified. As against this stock depression there is a new animation in the fixed-interest securities market, which seems to proceed out of a real need for investments; and it may be hoped that this revival will go further.

"German bankruptcies have increased. The financial difficulties which, following after the Stinnes collapse, overtook several great firms were the result partly of illiquidity due to mistaken tying up of capital during the inflation years; partly of defective technical and mercantile organizations, which broke down under the new deflation conditions. In many cases it

(Continued on page 581)



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The Condition of Business

Seasonal Pause in Business Reflected in Smaller Use of Bank Credit and Slightly Easier Money Conditions. January Re-investment Demand Seen in Higher Bond Prices and Absorption of New Issues. Loans to Security Brokers and Dealers.

DEVELOPMENTS in business and finance since the first of the year have, on the whole, been in line with the usual tendencies at this season. Trade and general business activity have declined moderately, following the marketing of the crops and the expansion of holiday trade. Although improvements in technical methods have made building construction less of a seasonal industry than in past years, some retardation in activity is still noticeable during the winter months.

This seasonal pause in business is reflected in a reduced demand for bank credit, and slightly easier money conditions. Return of currency from holiday circulation, and completion of the shifting of funds involved in the year-end disbursements for dividends and interest payments, reduce the demand for credit at commercial banks, and these, in turn, are able to repay their borrowings at the Federal Reserve Banks. The flexibility of the Federal Reserve System, through which the credit supply is readily adjusted to the credit demand, has, to a large extent, eliminated the seasonal fluctuations in interest rates, particularly on loans for business purposes. Rates on loans secured by stock exchange collateral, however, still usually show a substantial increase toward the end of the year, followed by a decline in January.

Somewhat easier money conditions and the January re-investment demand operate toward higher prices for bonds and the absorption of a large volume of new security issues. In the foreign exchange market, the New York rate for sterling tends to reach almost the highest price of the year, following elimination of pressure of bills resulting from the fall movement of grain and cotton to England.

The close adjustment which has been developed between the seasonal fluctuations in business and the volume of bank credit in use is well illustrated by the accompanying diagram, prepared by the Federal Reserve Board.

Beginning in midsummer, the demand for currency increases as crops are marketed, winter merchandise begins to move through distributive channels, and coal supplies are laid in. To these factors is added in December the demand for currency for holiday use, and the end-of-year disbursements by many industrial and financial institutions. By the end of last December, the combined operation of these forces had contributed largely to raising the total loans and investments of reporting member banks in leading cities to the highest level on record. The increase in loans in the latter part of December was largely in loans on securities, particularly at member banks in New York City. As a result of the greater demand upon them, the member banks increased their borrowings at the Reserve Banks, and drew out currency to supply their own customers. For example, during the five weeks between November 18 and December 23, 1925, the Reserve Banks paid out into domestic circulation a net amount of about \$320,000,000 of currency in the form of gold and gold certificates, Federal Reserve notes and other kinds of money.

Following the holiday season and the year-end disbursements, surplus currency tends to accumulate in the member banks, and they turn it back to the Federal Reserve banks in cancellation of their borrowings. Thus, during the four weeks ended January 20, 1926, about \$430,000,000 of currency was returned to the Reserve Banks for retirement, and there was a corresponding reduction in the volume of Reserve Bank discounts for member banks.

Volume of Trade Still High

THE recent seasonal pause in the pace of business still leaves general trade activity running at a very high level. Even after allowing for the effect of Christmas and other seasonal factors, final reports for December showed a further expansion in production and trade activity. Taking the year 1925 as a whole, industrial output and business activity were greater than in any previous year, and even after allowing for the normal rate of growth to be expected with increasing population, the volume of business was apparently greater than in any year since the war.

Perhaps the best picture of the condition of business for the year as a whole is furnished by the New York Reserve Bank's composite index of the "Total Volume of Trade." This index includes nearly sixty separate series of business and financial statistics. The figures for each of the different series are adjusted to allow for

the normal rate of growth characteristic of that series, as determined by many years of past experience. Wherever dollar figures are involved, as, for example, in the case of wholesale and retail trade, foreign trade, and bank debits, adjustment is further made to eliminate price changes. If activity in any line were 10 per cent more than might have been reasonably expected on the basis of past experience, the index number works out to 110. In other words, the index shows in each line what the volume of activity was in comparison with what it should normally have been. These index figures for the different series are then combined into four main groups: production, distribution, financial activity, and general business activity, and are weighted, both within each group and among the groups, according to relative importance.

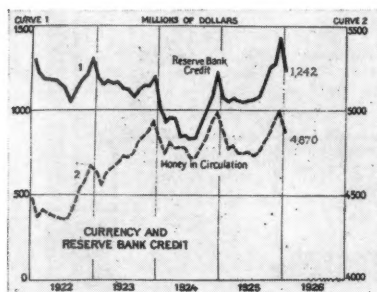
	1925	1924	1923	1920
Productive activity	113	107	115	97
Distribution	104	102	103	101
Financial activity	171	126	112	105
General business activity	112	104	104	100
Total volume of trade	111	105	108	101

The total volume of trade in 1925 is thus seen to have been substantially larger than in 1923, which had heretofore been the most active business year of any covered by the bank's index, first prepared in 1919. Of the component groups of the composite index, that representing financial activity, which includes speculation, new security issues, and similar series, showed a particularly large increase over 1924, but production and general business activity were also substantially above normal.

Continuance of business at above normal for at least several months is indicated at the present time. Automobile manufacturers report a satisfactory response of buyers to the new offerings, and production schedules are being established accordingly. There is a general feeling in the trade, however, that the year's total output will be somewhat smaller than in 1925. The large volume of building contracts awarded and building permits applied for in recent months assures the continuance of active building construction for some time to come. It is possible, however, that the attitude of many large financial institutions toward restricting loans on office buildings, loft buildings, and high-class apartment houses in New York City (in and around which about 25 per cent of the country's building construction has recently taken place) may result in a smaller volume of building being inaugurated in the next few months.

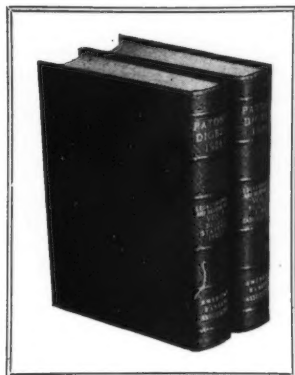
Purchasing power of the industrial population continues very large. Hiring rates

(Continued on page 586)



How bank credit and business have kept pace.

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Edited and compiled by Thomas B. Paton, Jr.

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Since that time many new statutes have been enacted, many new court decisions made and many new legal opinions rendered upon important banking problems, and at the suggestion of many members of the Association a new and enlarged edition of "Paton's Digest" has been in course of preparation for the last four years under the supervision of Thomas B. Paton, Jr., the Assistant General Counsel, and is now ready for publication.

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The Farmer Pays Less Interest

By W. F. STEVENSON

Member of Congress from South Carolina

THE credit needs of the farmer of America are divided into three general classes:

The capital loans, which include the purchase, improvement and equipment of the farms and the purchase of herds of livestock for production purposes;

The production loans, being the loans necessary to purchase fertilizer and seed and pay for labor necessary to cultivate and harvest the crop; and,

Marketing loans, which are necessary to finance the crop after it is produced, pay off the production loan and enable the farmers to market their crops in an orderly way without glutting the market, distributing the marketing over a period of months instead of marketing it all together.

After an inspection of the twelve land banks made by a sub-committee of the Banking and Currency Committee, in which I went through each of the twelve banks very carefully and also each of the Intermediate Credit Banks, run in the same building and under the same officers, and concerning the problems which are revealed by the dealings of these banks with the farmers, I was very much gratified to find the efficiency with which the two institutions were meeting these three needs for capital.

AS to capital loans for the ownership and improvement of farms, there are in round numbers \$10,000,000,000 of farm loans secured by mortgages of farms in the United States and, as it is estimated that there are about \$40,000,000,000 invested in farms, it will be noted that there is 25 per cent in round numbers borrowed on farms.

Up to the time of the institution of the farm loan system the rate of interest would average at least 8 per cent on all farm loans, or in round numbers \$800,000,000 per annum. Since the Farm Loan Banks entered the business, \$1,000,000,000 of loans in round numbers has been made by the Farm Land Banks and half a billion has been made by the Joint Stock Land Banks. They have absorbed such a per cent of the business that they have compelled the land mortgage companies and the insurance companies to meet their interest rates and to amortize their loans. The reduction in interest rates will average 2½ per cent over the whole United States, which means a saving in that item alone of \$250,000,000 annually.

A farmer now can borrow \$1,000, have it amortized so that he will pay 6½ per cent per annum, which is \$65 on the \$1,000, divided into two payments, one each six months, and by so doing and meeting simply that 6½ per cent at the end of thirty-four and a half years his debt, interest and everything is paid.

Under the old system he paid 8 per cent on the average and thereby paid \$80 a year instead of \$65 and would pay that for thirty-four and a half years and still be owing the \$1,000. He would then have paid \$517.50 more than he does under the land bank system and yet would owe the \$1,000, whereas by paying the land bank \$517.50

less he will have paid both the interest and the debt.

The money is obtained for these loans on the joint credit of all the farmers who are members of the Farm Loan Associations, pooled in the shape of notes and mortgages against which debenture bonds are sold, and sold readily at a little over par, at a rate of interest now about 4½ per cent. The government stock has been retired with the exception of \$1,331,930, while the farmers own \$52,000,000 of the stock. No dead assets are carried in the statement of the banks, which shows them with surplus and reserve abundant to care for everything after charging off, as they do monthly, all real estate bought in under foreclosure. The real estate so bought is negligible and is resold without loss in the majority of instances. It is the best financial cooperative effort that has ever been organized and is just reaching its stride now in service to the American farmer whereby he is serving himself. Of the 365,000 loans made to farmers, the average loan is \$3,100 in round numbers.

THE Intermediate Credit Banks can make loans to stock farms with live stock, machinery, and rediscount paper of agricultural credit corporations and of banks which have at least six months and not over three years to run. Where a man purchases a herd of cattle for purposes of production and will need at least three years to begin to put his product on the market these banks have been wonderfully helpful and remarkably successful. Some agricultural credit corporations procure from these institutions the funds for their members for producing their crops at a very low rate of interest, thus reducing the cost of crops and increasing the profit of the farmers.

WHEN a crop is made, for example the cotton crop of the South, the marketing loan is necessary.

Fifteen million bales of cotton marketed in one month would overwhelm the market of the world and yet it is a scant supply for the needs of the world. If marketed in an orderly way as the need develops and as the manufacturers call for it, there should be no demoralization in price.

The Intermediate Credit Banks furnish the Marketing Association with the money at a rate of interest which cannot be had elsewhere for the orderly and systematic feeding of the crop to the market as it is needed and thereby giving stability to the price of the product. This is a wonderful help to the cotton manufacturer because the price is comparatively stable and the manufacturer is not required to make enormous loans to acquire the cotton while it is being marketed for he knows there is a reservoir where the cotton is sold and where he can buy at a comparatively stable price as the needs arise.

The money for these intermediate credit loans, covering the short time capital loans, the production loans and the marketing loans, is obtained by selling debentures of

the Intermediate Credit Banks against the notes of the farmers, which they have discounted and is obtained at a rate of interest between 4 per cent and 5 per cent. The rate to the farmer cannot be more than $1\frac{1}{2}$ per cent more than the money cost the bank.

Patience and conservatism on the part of all concerned I feel sure will develop these twin institutions into a system which will enable the farmer of America to make a better profit out of his activities.

Industrial Loan

(Continued from page 547)

could advantageously use money have been depending on the so-called loan sharks or lending companies at a very high rate of interest. The Kentucky statutes allow institutions of proper capitalization to handle loans of this type up to \$2,000 at the regular 6 per cent rate of interest, plus a 2 per cent fee for the cost of investigating the character and responsibility of the borrower.

"The man who has had the same job five or six years, is a pretty substantial citizen, provided he has not overlived his income. But if he does not own real estate, stocks or bonds which would afford him the right kind of security which regular banks require when lending money, he cannot get money from them.

"The plan we have worked out here at the Louisville National and which has been approved by the Comptroller of Currency in Washington, makes it comparatively easy for employees, small merchants, and others to borrow money for necessary purposes by simply having two friends, neighbors or relatives who have good positions to indorse their notes. A note with three such men is certainly a good risk.

"By enabling the borrower to repay his loan weekly for fifty weeks, if he is paid by the week, or monthly, if he is paid by the month, this plan is really of great benefit to the public. It also tends to afford the habit of depositing every week or every month in a bank, which habit makes for substantial citizenship."

It is believed that this plan will teach thrift to those who have not been able to learn it before. As soon as the loan has been paid off, the borrower sees the ease with which the small weekly or monthly payments have been made and as the payments have run over a period of a year, he has gradually accustomed himself to getting along with that much less. It is then an easy matter to make a saver of this man and the amounts that formerly went into loan payments can be used in building a savings account.

Central States Conference

The annual Central States Conference of presidents, vice-presidents and secretaries of the central states bankers associations will this year be held in Topeka, Kan., on Tuesday and Wednesday, March 2 and 3.

General problems that confront bankers in the central states will be discussed by the conferees. Last year, the conference was held at Detroit.



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An Industry

(Continued from page 566)

for by the borrower's budget for that month. This system has been of great benefit to the growers for it has made thrifty farmers of many who had not previously been economical.

The Intermediate Credit Bank also requires monthly inspection reports from the agricultural credit corporations as to the condition of each borrower's crops. When making these inspections suggestions for improvement are often given. Farmers now appreciate this feature and realize that their effort to keep the crops in such condition that the advances will be continued is to their lasting benefit.

When the crop is harvested it is stored in warehouses pending sale and the grower may then borrow up to 60 per cent of the value, as shown by the warehouse receipts. The growers' cooperative associations can sometimes secure 75 per cent of the market value.

California Works New Plan

CHARACTERISTICALLY, the State of California, after securing a slight modification of the United States grades to suit local conditions, proceeded to make them mandatory for shipped rice in that state, and rice was placed under the state grain inspection service. The Rice Growers' Association of California seized this advantage of a definite analysis made by a disinterested agency and throughout the past season all samples handled by the association have been analyzed by the California Department of Agriculture. These analyses have formed the basis for valuations of rough rice by association officials and have served as a record of the quality of the sample used in selling any certain lot.

"The Rice Growers' Association of California sells its members' rice by placing samples on the tables in the association salesroom at Sacramento and receiving sealed competitive bids from the millers," says W. D. Smith, the rice marketing specialist of the United States Department of Agriculture whose headquarters are at New Orleans. "The sample on the table is presumably representative of the lot bought and sold. If when the rice is shipped from the warehouse to the mill any part of the lot is thought to be distinctly inferior in quality to the selling sample, a sample is drawn from the inferior portion and submitted to the State Department of Agriculture for analysis. The analysis of this adjustment sample establishes whether the buyer of the rice has any just claim for a discount in price on the alleged inferior portion. This has proven to be a satisfactory way to settle disputes regarding quality and it constitutes a pronounced step forward in the rough rice industry. Millers and growers alike in California are enthusiastic in their praise of the new order.

Certificates Vouch for Quality

"WHEN samples of rice in California warehouses are first drawn and analyzed, a copy of the certificate showing the analysis is sent to the owner of the rice. Each grower is advised thereby regarding

the quality of his product. If the grower has produced and put into a warehouse a crop free of defects, he is entitled to know it for his guidance in disposing of his product; and if his crop is of poor quality he should know that. Moreover this certificate shows him whether he may expect to obtain a small or a large loan on his product. In this respect alone the certificate is of great value. And if a grower has produced a crop of inferior quality, the certificate shows him in what way his product is inferior, which may serve as an incentive to eliminate the objectionable defects in following seasons."

The members of the Rice Growers' Association of California are fortunate in being located in a district where there is ordinarily an ample supply of agricultural credit at a reasonable interest rate. The local banks supply the production credit to the rice growers and the Intermediate Credit Bank of Berkeley supplies the co-operative marketing association with what marketing credit it needs. Marketing conditions last year were particularly favorable and borrowings were kept to a minimum, but this year it is thought that they will have to be increased. The advances are secured by sending in the warehouse receipts and executing a note in the usual way. The Federal bank requires that all warehouse receipts given them as collateral must be issued from a warehouse licensed and bonded under either the Federal or state warehouse acts.

"To meet a demand for pre-harvest financing of our members," says the President of the Rice Growers' Association, "the assignment order system was adopted three years ago and has since operated to the entire satisfaction of all who have made use of it. The records of the association reveal the fact that this system is used more each year. More than \$1,500,000 of these orders passed through the hands of the association for year ending June 30, 1925. In most cases these orders are accepted by banks, commercial business firms, and credit companies in preference to personal notes and crop mortgages. These orders are paid by the association in the order in which they are received when funds are made available from the sales of the rice in question, or through loans obtained from the Intermediate Credit Bank."

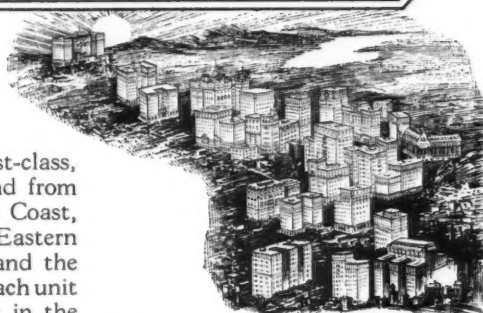
The rice is insured to the extent of its market value. A blanket insurance policy arranged for by the association covers the rice of all the members from the time it is sacked in the field until it is shipped

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from the warehouse after being sold to the millers.

Further Changes to Come

IT will not be long before all domestic rough rice will be handled on a definite basis probably by means of grade certificates, in the same way as practically all other grains are handled, is Mr. Smith's belief. He is now aiding in systematizing and making uniform various descriptive terms used in the industry, that now have different meanings in different localities or in different parts of the industry. "A small dealer who had been buying from a wholesaler, under the term 'unpolished rice,' the kind of rice that has only the hulls removed (brown rice), recently ordered some 'unpolished rice' direct from a mill. The mill shipped uncoated milled rice and the

ATWATER KENT RADIO

dealer was dissatisfied. The mill was right and the dealer was right according to their local definitions." Effort is also being made to improve and make more precise the wording of sales contracts which should save many misunderstandings.

Preliminary work is well under way looking toward the recommendation of United States standard grades for brown rice. Such preliminary work in all such cases involves much study and investigation and much testing out under commercial conditions, together with frequent consultation with the trade.

In the course of all of this standardization work many marketing and inspection operations have been improved, such as the methods for making quick and accurate determinations of moisture content and other grading factors in rice, and a milled rice trier has been developed that makes it possible to secure a more representative sample than formerly.

New Sheller Ascertains Value

TO ascertain satisfactorily the intrinsic and market value of rough rice, it is necessary to remove the hulls so that certain defects can be detected and the milling quality



Waiting to Unload Rice at the Mill.

Guaranty Trust Company of New York

140 Broadway

LONDON PARIS BRUSSELS LIVERPOOL HAVRE ANTWERP

Condensed Statement, December 31, 1925

RESOURCES

Cash on Hand, in Federal Reserve Bank and Due from Banks and Bankers	\$162,995,748.94
U. S. Government Bonds and Certificates . . .	34,980,695.39
Public Securities	15,762,171.73
Other Securities	21,593,855.71
Loans and Bills Purchased	382,279,794.05
Real Estate Bonds and Mortgages	1,565,650.00
Items in Transit with Foreign Branches	5,548,257.48
Credits Granted on Acceptances	40,263,426.45
Real Estate	7,980,926.04
Accrued Interest and Accounts Receivable . .	6,637,400.72
	<u>\$679,607,926.51</u>

LIABILITIES

Capital	\$25,000,000.00
Surplus Fund	15,000,000.00
Undivided Profits	6,884,933.80
	<u>\$46,884,933.80</u>
Bills Payable	5,000,000.00
Accrued Interest, Reserve for Taxes, etc. . .	6,046,070.19
Acceptances	40,263,426.45
Outstanding Treasurer's Checks	34,055,743.55
Deposits	547,357,752.52
	<u>\$679,607,926.51</u>

or hardness of the rice, which to a large extent governs the market value of rough rice, can be determined.

It has been a practically universal custom for buyers and graders to "rub out" samples between the hands or by other such method before buying or placing a valuation on the rice, but good judges are not always available, and the best of human judges, in the absence of a reliable rubbing test, will sometimes make mistakes in their estimates of probable milling yield.

Since this estimate is so important to price, the need for an accurate mechanical method for testing rice has become increasingly evident. After much experimenting Mr. Smith has developed a testing machine known as the Smith Shelling Device, which effectively removes the hulls from samples of rough rice. This machine also indicates the hardness of the kernels and their resistance to breakage although

the exact correlation has not yet been fully established. He has secured a public service patent which will allow any one to build and use the device without paying royalty to any person or firm.

The office of rice investigations at New Orleans is operating two of the machines and tests have been made to ascertain if the two machines give like results. In spite of a considerable difference in the age of the machines, results agree rather closely. Investigations are being carried further in the endeavor to establish a definite relationship in breakage. Meanwhile this device can be recommended as a greatly improved method for making shellings and it is thought that wherever it is used the operator will soon see that the amount of breakage in these shellings is a good indication of milling quality. Blueprints, specifications, and instructions for building the machine, the construction of

which has been kept as simple as practicable, are supplied on request.

Recently a field study of costs and management of rice production was made in southwest Louisiana in which 132 farms were actually visited and records secured of their business operations for the last cropping season. This included "out of pocket" expenses, cash income, and the labor demands for each farm. The tabulated data are now in process of computation on which summaries will be based.

In all of this work to improve the cost conditions and the marketing conditions of rice the Department of Agriculture has had the most hearty support of the rice growers, the rice trade and the rice press, and the marketing specialist works always in close cooperation with all of these factors of the industry.

Radio Talks

A SERIES of eight new radio talks on banking has been prepared by the Public Education Committee of the American Institute of Banking.

The talks are entitled: From Baby to Banking; What Your Savings Account Does to Your City; What We Use for Money; Why Some People Cannot Borrow Money from the Bank; Borrowing Money from the Bank; A Square Deal for the Pay Envelope; Trusts and Wills; and America's Financial Reservoir—the Federal Reserve System.

The Journal at Home

Many officers and department heads of banks have a copy of the JOURNAL in their homes, provided for them by their bank. One bank sees to it that every employee has a copy for himself or herself. Constant perusal of the JOURNAL articles makes for a better informed banker.



Miss Pearl Kramer

Miss Kramer is one of the first women to be appointed as a director of an investment banking house. She is shown here at her desk at a New York investment house on Wall Street.

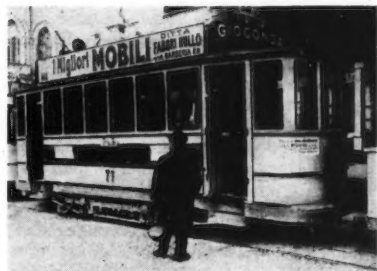
The Mid-Winter Trust Conference

A CONSIDERATION of fiduciary accounting will be one of the features of the seventh annual mid-winter trust conference that will be held in New York City at the Waldorf-Astoria Hotel on February 17 and 18. The two day session will be devoted to brief presentations of a wide range of fiduciary subjects and the open forum method will be followed throughout. It is planned to have one or more demonstrations, where the services that trust companies and banks perform are shown through a playlet based on actual happenings.

George H. Moses, United States Senator from New Hampshire, will be one of the speakers at the fifteenth annual banquet of the Trust Companies of the United States which will be held in the main ballroom at the Waldorf-Astoria. Neal O'Hara, the humorist, whose daily column is published by a large number of newspapers, will make a few observations. Francis H. Sisson, vice-president of the Guaranty Trust Company of New York, and President of the Trust Company Division, will serve as toastmaster at the banquet. Mayor Walker of New York will express the city's welcome.

For the purpose of considering insurance trust agreements and business building methods and practices, additional sessions on February 19 are to be held. The hours and duration of these sessions will be determined during the conference, the decisions being governed to a large extent by the wishes of those interested in the subjects.

The program for the main sessions will be arranged so that the most important subjects of general interest will be covered during the twelve hours available for this purpose. A free discussion of new topics is contemplated, with an exchange of the ideas, opinions and experiences of men actively engaged in handling trust business. During the first day, it is planned to offer a sketch in two scenes, showing how the responsibilities of executing and managing an estate, are shifted from the shoulders of a widow to a trust company. During the presentation, the action will reveal why the corporate fiduciary is better equipped to perform such a specialized service than any one individual.



THE sign on the front of this street car in Italy is an appeal from Mussolini to the individual citizens asking them to contribute a dollar to help wipe out the Italian war debt to the United States. The same placard is posted on every available statue, building and even train cars.



Big Enough
to Have
Confidence In—

AND growing every
day as more and more of
our colleagues in banking
"discover" the unique
service facilities of

The UNION TRUST Co.

CLEVELAND, OHIO

Resources over 300 Millions

SINCE '61 A BANK FOR BANKERS

The CONTINENTAL and COMMERCIAL BANKS CHICAGO

Statements of Condition December 31, 1925

CONTINENTAL and COMMERCIAL NATIONAL BANK of CHICAGO

<i>Resources</i>	
Time Loans	\$164,525,750.60
Demand Loans	132,384,491.91
Acceptances	337,599.38
Bonds, Securities, etc.	21,739,241.91
U. S. Bonds and Treasury Notes	
Stock of Federal Reserve Bank	43,613,280.42
Bank Premises (Equity)	1,200,000.00
Customers' Liability on Letters of Credit	7,950,000.00
Customers' Liability on Acceptances	4,921,290.10
Overdrafts	4,808,282.60
Cash and Due from Banks	131,178.41
	<u>125,488,970.67</u>
	\$506,982,086.00

<i>Liabilities</i>	
Capital	\$ 25,000,000.00
Surplus	15,000,000.00
Undivided Profits	72,110,201.25
Reserved for Taxes	1,568,242.73
Circulation	50,000.00
Bills Payable with Federal Reserve Bank	19,000,000.00
Liability on Letters of Credit	5,768,738.15
Liability on Acceptances	5,023,773.68
Deposits { Individual	\$269,693,685.17
{ Banks	158,667,445.02
	<u>428,361,130.19</u>
	\$506,982,086.00

CONTINENTAL and COMMERCIAL TRUST and SAVINGS BANK

<i>Resources</i>	
Demand Loans	\$ 16,145,323.87
*U. S. Government Bonds and Treasury Notes	23,904,496.02
*Bonds due in 1926 to 1928 inclusive	12,156,665.14
*Other Bonds	11,721,071.35
Cash and Due from Banks	33,515,597.20
Time Loans	
	<u>\$97,443,153.58</u>
	21,591,569.34
	\$119,034,722.92

*Adjusted to cost or market price, whichever is lower.

<i>Liabilities</i>	
Capital	\$ 5,000,000.00
Surplus	10,000,000.00
Undivided Profits	1,853,766.13
Reserved for Taxes, Interest and Dividends	1,766,998.45
Demand Deposits	\$ 30,632,977.55
Time Deposits	60,540,367.62
Special Deposits	9,240,613.17
	<u>100,413,958.34</u>
	\$119,034,722.92

Total Resources \$626,016,808
Total Deposits 528,775,088
Invested Capital over 62,000,000

reckoning of the real position of accounts between the time when raw materials have been purchased and the time when cash returns from sales have been received has often been practically impossible.

THE efforts of firms to protect their position in current operations have taken a number of forms and have been attended with varying degrees of success. There is no doubt that many of the smaller firms have been unable to take adequate measures against concealed losses and have thus done business under what appeared to be prosperous conditions, while in fact shouldering very considerable losses. In order to protect their position as far as possible, manufacturers have shown a tendency to keep current funds employed in stocks of raw materials and manufactured goods when possible. They have preferred to carry their goods in their own warehouses and to sell on credit terms shorter than usual.

Wholesalers have adopted a similar policy and have furnished retailers amounts of goods smaller than usual, at the same time that they have cut down the credit period customarily accorded. In these ways, they have kept their operating funds in goods, reserving for themselves the possibility of revising prices rather than letting their funds lie in outstanding accounts with their customers. In this way, losses from franc declines have been by a large number of companies reduced even if not entirely avoided. These practices doubtless have resulted for wholesale suppliers, in proportionally higher bookkeeping and delivery costs, but their soundness appears to be beyond question.

Against cutting down of credit and the "hand to mouth" policy in furnishing supplies, retailers have made frequent protests. On the whole, however, it seems that the practice currently adopted is advantageous for retailers as well as for their suppliers since it discourages their accumulating on their shelves goods which they would be tempted to sell out at nominal profit without proper consideration of replacement costs.

THE difficulty of protecting the financial position of business enterprises is brought out even more clearly in connection with the annual balance. The items entering into the yearly accounts of French companies in the period since the war, as a rule do not rest on a uniform basis. Some are carried at their pre-war valuation; thus real estate and equipment entries are often made at the original cost of acquisition, modified in the case of the latter items by adjustments for obsolescence. Such statements obviously involve amounts far below the nominal franc replacement cost. Other items are expressed in gold francs or in paper francs at varying rates of exchange. Obviously these latter, so far as they involve stocks of raw materials acquired at the beginning of the year, are deceptive if used in connection with sales returns obtained during a period when the franc has lost a very considerable proportion of its real gold value.

Theoretically, the only safe basis on which a company can keep its accounts under present conditions, involves adoption of a gold standard, all the permanent items of invest-

Company Accounting and the Weakening Franc

By CHESTER LLOYD JONES

Commercial Attaché, U. S. Embassy, Paris, France

THE difficulties which have confronted French firms since the War when trying to ascertain their own financial position, were greatly accentuated by the rapid fall of the franc in the latter months of 1925. The fall in the gold value of the medium of exchange from an average of 18.54 to the dollar in January, 1925, to almost 28 to the dollar in December, has obviously made it hard for

any company to tell whether it has made a profit or a loss on current transactions, and has greatly disturbed the factors entering into the reckoning of the annual balance.

The exchange factor in current operations has become much more important than shifts in the values of raw materials, and the manufacturers' problem has increasingly involved working with two variables. The

ment being reduced to a gold basis at the end of each reporting period and the returns from current operations being put on that basis at the conclusion of each transaction. Such a standard is obviously difficult, if not impossible to put into practice even in large establishments with a competent accounting force.

The more conservative firms, however, recognize that if a return to a gold basis in accounts is impractical, at least an approximation of this basis is highly to be desired. They recognize that especially for 1925, it is dangerous to accept the apparent returns for the year without adjusting the figures at least so as to make them truly comparable with those at the beginning of the year.

IN order to guard against deceptive returns, steps have been taken by business groups in some of the more important manufacturing areas of France, to call to the attention of their members the importance of estimating their current and annual returns with a full recognition of the exchange developments which have occurred during the past year and are now in process. For a large percentage of French enterprises, however, adjustments of this sort have not been made and the favorable reports of operations in too many cases, cover up losses on operating and capital accounts of a character probably at least quite as serious in 1925 as in any year since 1913.

Warns Germany

(Continued from page 570)

proved possible to restore a firm's liquidity by means of credit help and by detaching from it outlying industrial undertakings which were not organically connected with the main concern; and by such means the continued operation of mills and workshops was insured. But the last months have witnessed an increasing crop of bankruptcies and of cases of suspended insolvency. Luckily for Germany, a great part of the insolvent firms were mushroom undertakings originating in inflation times. In November, 1925, 600 such firms were numbered out of 1360 bankruptcies of all kinds. Painful for the victims as is this process of combing out concerns unfit for existence; regrettable as it is that also some old firms of good reputation succumbed, the process is nevertheless inevitable and it is in the interest of the surviving majority of sound concerns. A further fact of importance is that nearly half of all our bankruptcies are in the trading branches. In November 660 trading firms were counted among the 1360 bankrupt firms. This results from the fact that our distribution apparatus is still permeated by unsound inflation influences. It is therefore unable to face free competition under the new conditions of deflation.

"As the bankruptcies question is one which may be considered to affect vitally Germany's reliability as borrower, it should be admitted that in addition to formal bankruptcies there are many financial collapses which owing to various reasons do not get into the list of formal insolvencies. The list of bankruptcies officially compiled by no means embraces all business failure. It is impossible to foresee how this financial coming out process will develop in future.

But it must be repeated that the process will improve conditions for the surviving sound undertakings, and will make these even better as borrowers.

Stagnation in Selling Markets

"**P**ERHAPS more serious than the bankruptcies is the stagnation in the selling markets for both manufactured

goods and raw materials, because this stagnation has a bad effect upon the labor market. Home sales are at present being badly checked by the low purchasing power of the farming class. Agriculture in 1925 had very good crops; nevertheless under the influence of unfavorable price movements in the world market, farmers suffered badly. For rye, which is a very important crop in Germany, the price movement was particu-

National Bank of Commerce in New York

Established 1839

STATEMENT OF CONDITION, DECEMBER 31, 1925

RESOURCES	LIABILITIES
Loans and Discounts \$329,099,966.19	Capital Paid up.....\$25,000,000.00
Overdrafts, secured and unsecured..... 11,708.86	Surplus..... 25,000,000.00
United States Securities..... 53,314,209.89	Undivided Profits... 15,935,290.52
Other Bonds and Securities..... 9,548,700.29	Dividend payable January 2, 1926... 1,000,000.00
Stock of Federal Reserve Bank..... 1,500,000.00	Dividends unpaid.... 14,207.50
Banking House..... 4,000,000.00	Deposits..... 543,699,069.67
Cash in Vault and due from Federal Reserve Bank..... 60,890,000.22	Reserved for Interest, Taxes and other Purposes..... 4,826,684.62
Due from Banks and Bankers..... 11,251,049.23	Unearned Discount.. 962,835.43
Exchanges for Clearing House..... 161,987,953.30	Acceptances executed for Customers.... 43,468,474.79
Checks and other Cash Items..... 3,735,719.27	Acceptances sold with our Endorsement.. 19,921,399.85
Interest Accrued.... 1,749,326.23	
Customers' Liability under Acceptances. 42,739,328.30	
\$679,827,961.78	\$679,827,961.78

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EVERY DOLLAR THAT HAS BECOME DUE ON FIRST MORTGAGE BUILDING BONDS SOLD BY US HAS BEEN PAID TO EVERY INVESTOR

Rules for SAFE INVESTMENT



INVESTORS have come to realize more every day that the safe investment of money is not a question of luck; it is not a question of reaching in the hat and pulling out a lucky number. But it is a question of following very definite principles or rules which have been evolved from a table of investment experience of many generations.

In a new booklet just published by the American Bond & Mortgage Company, the following significant statement is made:

"The knowledge gained over a long period of years by the Executives of this Company, makes it possible for them to determine whether a given spot in a City will have a growth in property value which will be steadily increasing."



How this can be done is explained in this new booklet—"Rules for Safe Investment."

Send for this valuable book of rules—familiarize yourself with its contents—let the experience of this national organization guide you in the selection of safe investments.

Write for Booklet AJ-233

A practical illustrated book—Sent FREE

AMERICAN BOND & MORTGAGE Co.

Established 1904

AN OLD RESPONSIBLE HOUSE

Incorporated

Capital and Surplus over \$7,500,000

127 North Dearborn St., Chicago 345 Madison Ave., New York
Detroit Cleveland Philadelphia Boston And over 30 other cities

larly unsatisfactory. But agriculture like other branches will have to suffer the after-pains of inflation. The farmers invested their inflation profits too tightly, tying up their money in such a way that nearly all today complain of lack of working capital. Also agriculture shows an increase of insolvencies, but the number, though it rose from five in September to thirty in November, remains small.

"Germany's export trade has to face the same troubles as the export trade of other countries. The threads of international trade relations, rent by the World War, are far from being fully joined. It is sufficient to point to the practical elimination of East Europe as a buyer in the world market.

Over-production of manufactured goods is resulting from the foundation of industries in countries which formerly produced only agricultural products and raw materials; and against this industrial over-production stands the fact of the world's reduced purchasing power. Increased import duties, import prohibitions, and other political-economic measures are additional obstacles to international trade. In the interests of trade it is today highly desirable that the old division of labor between raw material production and agricultural production on the one hand, and industrial production on the other, should be restored.

As a favorable development against the above unfavorable factors Germany can

point to the conclusion of many new commercial treaties, and further treaties will be concluded in the near future. The question of her foreign trade balance is urgent. The year 1924 yielded an import surplus of 2,600 million marks; and the surplus of 1925 will be some 4,000 million marks. These figures however are not so terrifying as they at first appear. In the last months of 1925 we experienced a standstill in, later a decline in, imports; whereas there has been a steady increase in exports. The relatively high volume of imports is an outcome of our new foreign borrowings. A great part of the borrowed money reaches us in shape of imports. This is ultimately the case even when credits at first arrive in the form of foreign exchange and are delivered to the Reichsbank. For the time being, our import surpluses must be put down to our success in getting credits from foreign capitalists.

"The willingness of foreign countries to lend us money continues. This is no matter of surprise in view of the favorable movement of the Dawes loan upon foreign bourses and of the high yield of capital invested in Germany. In spite of the completion of a series of large foreign loans, Germany's total indebtedness abroad has hardly at all increased. This is the case because part of the new loans merely went toward consolidating existing short-term debts. Including the Dawes loan, the present total of our foreign indebtedness is about 3,500 million marks; and this is no cause for apprehension even though at an average rate of 10 per cent for interest and other charges it burdens us with an annual liability of 350,000,000 marks. Germany must nevertheless show reserve in the contraction of further foreign liabilities. She should limit the use of foreign capital to cases where there is an urgent economic need.

Warns Against too Much Outside Help

"HOW can Germany best improve her difficult economic condition? Firstly, I should warn her against depending too much upon foreign help. Valuable as this help is and has been to us, we should rely primarily upon the recreation of capital at home. At home lies the center of gravity. This is proved by the fact that before the war the annual creation of new capital in Germany exceeded the whole amount of her present indebtedness abroad. Secondly, Germany must note that foreign lending countries (and by that is mainly meant the United States) have claims upon them by other European borrowing countries, so that there is a limit to the amount which Germany could borrow. This is a further reason why we should practise economy in our administration and take measures to reduce our production costs and to increase the efficiency of our labor. Only by such means can we increase the volume of our sales both at home and abroad.

"My view is that Germany can look with confidence toward the new year if she shows a firm will to maintain her position, and if she continues on the path which she has of late pursued. Most stress of all I should lay upon the improvement of our productive and distributive organization.

Cheap Money and Installment Buying

COMMENTS are not infrequent that money is remarkably cheap in view of the large volume of business which is being done and the heavy absorption of credit by securities and real estate," says the National Bank of Commerce, New York, in its Monthly Review. "Whether rates are to be regarded as high or low at any given time, however, depends solely on the basis of comparison. Before the establishment of the Federal Reserve System, United States business was only too accustomed to violent changes from extreme stringency to redundancy. Recognizing that these have been eliminated, present rates may be regarded as relatively higher than most people have thought. Viewed from the standpoint of long-time trend, the rapid capital accumulation now going on here clearly points to declining yields.

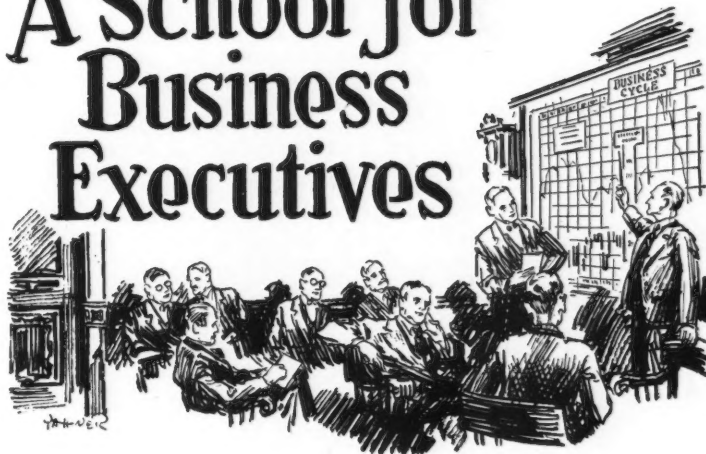
"In this connection, one aspect of the current credit situation is not clear. At the beginning of 1925 it was felt that expanding business eventually would absorb large amounts of credit. However, if the volume of loans other than those secured by stocks and bonds made by the more than seven hundred member banks in leading cities which report regularly to the Federal Reserve Banks be taken as an index of the volume of commercial loans for the country as a whole, the evidence is that the large volume of business of the year just closed was financed with very little expansion of borrowings by manufacturers and merchants. This item increased from \$8,206,000,000 on December 31, 1924, to \$8,306,000,000 on December 30, 1925, or only \$100,000,000.

"The usual explanation of these figures is twofold. Adherence to a policy of hand-to-mouth buying, low inventories and rapid turnover, made possible by efficient transportation and communication, has reduced the amount of credit necessary for the financing of the current operations of manufacturers and merchants; and the large working capital and cash reserves of many enterprises have lessened their dependence on borrowings.

"This explanation is good as far as it goes, but it is doubtful whether it takes account of the relation of installment sales to the current credit picture, and, indeed, to inventories. Unpaid installments constitute a form of outstanding commercial loans, and manufacturers' or merchants' equities in goods in the hands of consumers must be considered in connection with the question of whether inventories are high or low. No doubt the reporting member banks whose loans are usually assumed to be a good index to the commercial borrowings of the country have played an important part in the financing of installment sales.

"Unquestionably, however, the other banks of the country have also furnished a large share of the credit necessary for the financing of the installment business, and much has come from sources other than banks. Manufacturers and merchants have freely employed their own capital to facilitate installment selling. Sales of stocks and debentures of finance corporations have provided a means whereby large amounts of investors' money have been made available

A School for Business Executives



A group of business men in Boston is going to night school. Presidents, vice-presidents, managers and other executives meet once each week after business hours, to study economics. And an official of the Federal Reserve Bank instructs them.

He is teaching them the meaning of statistical reports; and the significance of general business conditions as applied to their own affairs. All of which will help those men be better citizens, better business men, and better bank customers.

How about the executives in your community? Are you doing your share to give them a better understanding of economics and sound business? It is not only a duty that you owe; but an opportunity that you cannot well afford to overlook.

You will not need to start a night school. Our monthly Bank Review will help you carry on this constructive work by mail. A line from you will bring the current issue, and details of our proposition.

INVESTMENT-ADVERTISING-COMPANY
208 South La Salle St. CHICAGO Telephone Harrison 1577

for this purpose, and groups of individuals throughout the country, sensing the opportunity for high returns in a period when most other avenues of employment have promised only modest interest rates, have used their own funds for the organization of small finance companies for the handling of local business. Thus has cheap money played its part in the rapid expansion of the installment purchase system."

McFadden Bill

CONGRESS has the McFadden-Pepper bill, which seeks to modernize the National Bank Act, under active consideration.

The bill, after being favorably reported by Banking and Currency Committee of the

House of Representatives, was brought before the House on January 27, when the general debate was started. Subsequently it was considered section by section and by a vote of 292 to 90, it was passed on February 4.

The Senate Committee on Banking and Currency was scheduled to start hearings on the bill on February 13. Representatives of the California bankers, who are opposed to the provisions which place a curb on branch banking, asked that they might lay their views before the Senate committee. The measure faces more opposition in the Senate than in the lower house of Congress.

Read the warnings in the Protective Section of this issue of the JOURNAL.



Resources
over
\$170,000,000

FOUR BILLION

MICHIGAN is among the leading manufacturing states, fabricating a great variety of products.

The factory value of her industries is now close to Four Billion Dollars annually. This total is a seventy-five per cent increase in two years.

This Bank is an important link in the growth of Michigan's manufacturing. It offers unequalled facilities for serving all having banking business in the Great Lakes Region.

FIRST NATIONAL BANK DETROIT MICHIGAN

The First National Bank, the Central Savings Bank, and the First National Company of Detroit, are under one ownership.



D. P. Bestor, Jr., president, Alabama Bankers Association, president, First National Bank, Mobile

"AT the same time, the attendant and renter can both observe that the seal in the tin is unbroken. The act of the renter in lifting the lid of the tin automatically cancels the seal in the tin. The renter removes the cancelled seal and inserts the one newly signed. The cancelled seal is surrendered to the attendant who time-stamps it.

"When the renter has finished with his tin, he, of course, closes the lid. This automatically locks the tin with the newly signed seal in it. The tin is then locked up in its receptacle in its usual way.

"The cancelled seal has two time stamps on it, one when the seal is placed in the tin and the other when it was removed from the tin.

"The safe deposit company thus has proof of non-access as well as the proof of access by the proper party. That is, it has the proof of the time the renter placed the seal in the box, the proof of the time he took it out and what is still more valuable, the absolute and conclusive proof that the tin had not been opened between these two times—absolute proof of non-access.

New Way of Operating Safe Deposit Vaults

A SYSTEM of operating a safe deposit vault that does away with many of the present day troubles has been developed by a bank in a large city in the Middle West. It does not require two attendants to be in the vaults at all times and does not make the changing of the lock necessary every time a box is given up.

The system is called the signature seal system. In the *Safe Deposit Bulletin*, the method is described as follows:

"This vault uses all the present systems in the way of keys, etc., and in addition it alters the tin in such a way that a paper

seal which has been signed by the box renter can be placed in the tin while open. When the tin is closed, the signature is clearly visible from the outside of the tin. The tin is then locked in its receptacle in the usual way. When the renter wants his box, he signs his name on a similar seal which takes the place of the usual access ticket now in use in a number of vaults. The attendant time-stamps this seal, and in the presence of the renter unlocks his box. The attendant compares the signature just signed with the one in the tin, and, if they agree, he allows the renter to have the tin.

"THE seal cannot be duplicated by anyone but the renter, as it has his signature on it, which was signed in the presence of the vault attendant. Further, the inserting date of the second seal corresponds with the removing date of the first, and the inserting date of the third seal corresponds with the date of the second and so on.

"You also have in the box, locked in the tin, the absolute proof of who was at the box last—a most valuable feature where two or more persons have the right of access to the box.

"The owner knows that his box could not have been opened without puncturing the seal which he himself has made. There is no



J. W. McCoy, President, Oregon Bankers Association, Cashier, First National Bank, Ashland

chance for forgery, dishonesty, or mistake. The use of this system does away with all the petty annoyance occasioned by the keys and the guarding thereof. There is no objection to your renters leaving their keys hanging in the door while their tin is out. You need never change your lock. You are effectually protected in case of a law suit. The method is simple and is a time saver over present methods.

"It is the most effective method yet devised for the protection of the box owner, safety deposit company and attendant."

There Is No Substitute

SPEAKING at the annual meeting of the National Council of Farmers' Cooperative Marketing Associations Judge Robert W. Bingham, chairman, said:

"I am not able to see the need of a Federal method for handling the surplus as long as cooperative marketing has not been given its full fair chance.

"If the growers of this land will try cooperative marketing, on great national crops—try it with a full heart—try it with loyalty and with perseverance; and if the real farm leaders of the country will give more than lip support to cooperative marketing and will really advise their followers to direct their way behind the movement; and if the government, under our President and Secretary of Agriculture will continue to give administrative support, then I know that cooperative marketing will solve the problems of the farmer; will enable him to handle both his domestic sales and his foreign sales; will enable him to adjust supply to demand without flying in the face of economic truths and will enable him to build up his own prosperity on his own efforts, on a lasting and solid foundation.

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Condensed Statement of Condition

RESOURCES

Loans and Discounts . . .	\$107,985,212.09
U. S. Bonds	37,676,023.95
Other Bonds and Investments	48,479,774.03
Mortgages	13,919,176.18
Real Estate	5,314,958.11
Customers' Liability on Letters of Credit and Foreign Trade Credits	428,923.60
Accrued Interest	914,984.78
Cash and with Banks	35,838,364.32
Total	\$250,557,417.06

LIABILITIES

Capital	\$10,000,000.00
Surplus	10,000,000.00
Undivided Profits	5,809,086.65
Reserves	2,240,000.00
Contingent Liability on Letters of Credit and Foreign Trade Credits	428,923.60
Due Federal Reserve Bank . .	16,920,000.00
Deposits	205,159,406.81
Total	\$250,557,417.06

*At the beginning of business
January 2, 1926*



"Let us stand absolutely behind the President. He has trusted us. He has adopted our program. Our faith and honor are irrevocably committed to the program he adopted at our urgent suggestion.

"Commodity cooperative marketing has proved that it will solve agricultural problems and difficulties, including surplus, so-called, when operated intelligently and on a sufficiently large percentage of any given crop. The opportunity to adopt this method is within the reach of every farmer in this country.

"His legal problems have been solved, his credit problems have been solved, his organizations have been justly and properly ex-

cepted from the inhibitions of the anti-trust law, successful and unsuccessful experiences have developed to guide him, the bankers, the business men, the newspapers, the full support of the President and the government of the United States are aiding him. Moreover, the wisest and most patriotic leaders of this country, through the Institute of Cooperation, with its admirable educational program, are giving him information and guidance. This council, itself, through its system of schools, is giving him encouragement and enlightenment. The Text Book Committee, which includes in its membership some of the ablest and best informed of our countrymen, is preparing a textbook

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Condition of Business

(Continued from page 572)

for unskilled labor throughout the New York area averaged slightly higher on January 1, 1926, than six months previous, and in fact were practically the same as at the high point in 1923. Earnings of factory operatives and office workers are slightly above the previous high marks reached in 1920. The high level of earnings, during a period in which the cost of living has declined from the peak, has accompanied greatly increased output per worker employed, and has been distributed generally throughout the manufacturing industries, except the textiles which have been depressed.

The Security Markets

SOMEWHAT easier money conditions and the appearance of a strong reinvestment demand were the principal factors resulting in an advance in bond prices during January. For a representative group of domestic corporation bonds, the advance amounted to about a point, which carried average prices to the highest levels since 1917. United States government issues made net gains ranging up to one-half a point, and foreign government issues in many cases showed an advance from 1 to 2 points. In the stock market, prices generally continued firm during the first part of January. Railroad shares rose to new high levels since 1913, accompanying reports of improved earnings and rumors of impending mergers, while industrial issues recovered close to the high levels of last November. Later in the month price movements turned irregular.

Not only was the market for outstanding bonds strong in January, but offerings of new securities increased substantially and were the largest since January, 1923, an unusually high month. Industrial and public utility offerings were important elements in the increase, and included a considerable volume of stock issues. Increased use of stock issues in new corporate financing continues the tendency evident in 1925, when the total was substantially larger than in 1924.



FRANK WHITE, Treasurer of the United States, is shown here writing his famous signature which appears on every piece of paper money that the government puts in circulation. Without his name affixed to it, paper currency is worthless.

Security Collateral Loans

THE Federal Reserve Board is extending the information covered by its system of weekly reports from member banks in leading cities so as to show the aggregate amount of security collateral loans as an item separate from other loans on stocks and bonds. This additional information, together with monthly reports compiled by the New York Stock Exchange showing borrowings of its members, will undoubtedly help toward a better understanding of the relations between the market for brokers' loans, or "street" loans, and the other markets which offer employment for short term funds.

The scope and method of operation of the other markets for temporary investment are fairly well known through authoritative reports. The commercial paper market is now absorbing about \$650,000,000, in comparison with a total of about \$1,200,000,000 at the peak of activity in 1920. The market for bankers' acceptances, under the encouragement of the Federal Reserve System, has grown in ten years to a position of equal importance with the commercial paper market. Total outstanding bills, according to the American Acceptance Council, has ranged in recent years from about \$1,000,000,000 in 1920 to \$600,000,000 in 1921, and at the end of 1924 stood at about \$820,000,000. Another recently established market, also sponsored by the Federal Reserve System, includes government certificates of indebtedness and Treasury notes.

Although confidential reports covering security loans to brokers and dealers in New York City were collected during and following the war in order to facilitate the distribution of Liberty loans, no authoritative figures have been published heretofore, except for the period from 1919 to the middle of 1921 in connection with the reports of the Joint Commission of Agricultural Inquiry. During these years the volume of street loans in the New York market, including loans placed by 52 New York banks both for their own account and for correspondents, reached a peak of about \$1,500,000,000 late in October, 1919, or equal to about one-half of the total of all classes of loans on stocks and bonds placed by all weekly reporting member banks throughout the country. From that point, the total of street loans for New York banks' own accounts and for correspondents declined gradually to a level of about \$800,000,000 at the middle of 1921, when the published figures stopped.

Loans Have Been High

THE unprecedented amount of new securities created and sold in recent years, in conjunction with the pronounced rise in average prices of outstanding stocks and bonds has led to a very marked expansion in security collateral loans since that time.

Initial weekly reports of the Board will cover only street loans made by reporting members banks in New York City for their own account and for others, but at a later time it is planned to extend the reports to include street loans placed in other important financial centers. The monthly reports of the New York Stock Exchange on the total borrowings of its members on securities



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will differ from the figures of the Board since the former include borrowings from foreign bank agencies, private banks and bankers, and other financial institutions.

The new information will throw considerable light on the size of the street loan market in comparison with the amount of loans on stocks and bonds contracted for purposes other than carrying securities, and will indicate its relations to the other short term money markets. A better general understanding will result as to the real economic function which the street loan market performs in carrying for a time new securities in process of distribution to investors, and in financing the floating supply of stocks and bonds, which are as essential to the smooth operation of a security ex-

change as are dealers' stocks of goods in other lines of business.

Time Deposits Grow

THERE has been a steady growth in the amount of time deposits for several years. While figures are not available for all of the incorporated stock banks in the United States, the Federal Reserve Board reported that there was a gain of \$870,000,000 in the time deposits of its 9,000 member banks between Oct. 10, 1924, and Sept. 28, 1925. The banks had \$10,467,000,000 in time deposits on this latter date. The net demand deposits were \$18,233,000,000, and while these are larger than for 1924 the growth has not been proportionally as fast.

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All over the country bank depositors are investing part of their funds in Public Utility Securities. Is the Bond Department of your bank ready to meet the broadening demand in this attractive field of investment?

This Company, which has long specialized in Electric Light and Power securities, has numerous conservative banks on its customer list.

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Directory of Corporate Fiduciary Associations

A DIRECTORY of corporate fiduciary associations has been issued by the Trust Company Division of the American Bankers Association. This compilation is in line with the Division's work of encouraging the formation of trust sections and corporate fiduciary associations throughout the country for which constant help is being given through the office of the Division.

The directory presents a brief résumé of activities, published with the view that it will be useful both to members of existing organizations and to those contemplating forming trust company groups.

The publication gives the following bird's-eye view by states of corporate fiduciary associations:

Arizona: Trust Company Section, Arizona Bankers Association.
California: Trust Officers Association of Long Beach; Association of Trust Officers of Los Angeles and Vicinity; Associated Trust Companies of Central California; Trust Company Section, California Bankers Association.
Colorado: Denver Trust Officers Group; Trust Section, Colorado Bankers Association.
Connecticut: Connecticut Association of State Banks and Trust Companies; Corporate Fiduciaries Association of New Haven.
Georgia: Trust Department Committee, Atlanta Clearing House Association.
Illinois: Corporate Fiduciaries Association of Chicago.
Indiana: Informal Organization in Indianapolis.
Kansas: Trust Company Bureau, Kansas Bankers Association.
Louisiana: New Orleans Clearing House Association standing committee.

Maine: Corporate Fiduciaries Association of Maine.
Maryland: Corporate Fiduciaries Association of Baltimore.
Massachusetts: Massachusetts Trust Company Association; Corporate Fiduciaries Association of Boston.
Minnesota: Trust Officers' Association of Minnesota.
Missouri: Corporate Fiduciaries Association of St. Louis; Corporate Fiduciaries Association of Missouri.
Montana: Separate sections in Montana Bankers Association for national, state and private banks and trust companies.
Nebraska: Omaha Trust Officers' Association.
New Jersey: Fiduciary Section, Essex County Bankers Association.
New York: Corporate Fiduciary Association of Buffalo Trust Companies and Banks; Corporate Fiduciaries Association of New York City; Trust Company Section, New York State Bankers Association; Trust Companies Association of the State of New York.
Ohio: Trust Companies Association of Ohio.
Oregon: Trust Companies' Association of Oregon; Committee on Trust Powers, Oregon Bankers Association.
Pennsylvania: Corporate Fiduciaries Association of Scranton.
Texas: Trust Company Section, Texas Bankers Association.
Utah: Trust Company Section, Utah Bankers Association.
Washington: Seattle Association of Trust Men; Trust Section, Washington Bankers Association.
Wisconsin: Associated Trust Companies of Wisconsin.

The compilation shows that there are no trust group organizations in the following: Alabama, Arkansas, Delaware, District of Columbia, Florida, Idaho, Iowa, Kentucky, Michigan, Mississippi, Nevada, New Hampshire, New Mexico, North Carolina, North Dakota, Oklahoma, Rhode Island, South Carolina, South Dakota, Tennessee, Vermont, Virginia, West Virginia, Wyoming.

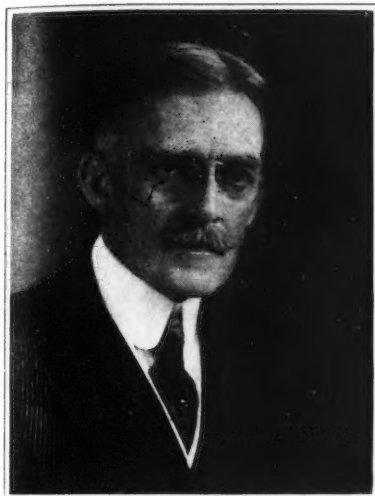
Bank Receiverships

(Continued from page 559)

been to stave off the tragedy of the bank failure and the staving off has meant greatly added loss in the final closing which has almost always been the outcome.

"If a bank were promptly put into liquidation when there is a serious impairment of the capital and surplus, unless the impairment was promptly made good, little, if any, loss would be suffered by the creditors. But when such a bank is permitted to run for years and usually under the same management, it means a loss of often fifty per cent and in some cases far more. A failure would not mean so very much to a community, if creditors received 90 to 100 per cent, and this would be the usual thing instead of the exception if banks were closed when they should be closed."

When by force of events a notice is placed on the window of a bank that it is in the hands of the banking department the depositors are not only interested in what the assets will return to them but in how much it will cost to collect those assets. Obviously every dollar in receivership costs comes out of the pockets of the depositors or if, as in a few states, a guaranty fund exists, out of the contributing banks. The public has a right to have every possible saving made in the liquidation of the failed institution and this Department of Insolvency has made a long step toward economical management and the protection of the depositor who is at the mercy of the liquidating agency.



A. H. Baldwin.

MR. BALDWIN, a resident of New York, is one of the newer members of the United States Tariff Commission appointed by President Coolidge. The Commission in its annual report recommended changes in the provisions of the flexible tariff law.

Western Reclamation

(Continued from page 550)

couraged, aided and protected at all costs.

Much has been said recently regarding the losses to the reclamation fund. They are insignificant and trivial compared to the accomplishments of reclamation. It is unfair and unjust to condemn the whole structure because of a few temporary setbacks and failures. Few industries and businesses have shown such results with the small proportion of failures as has western reclamation. It compares favorably in this particular with the transportation industry of the country. It should be remembered that the transcontinental railroads have received bonuses from the Federal government of millions of acres of land. The bonds of these companies were never expected to be redeemed in a short period of years.

Three Times More Than the Investment

AS the government is the trustee for the reclamation fund, and the administrator of the projects, it is justified in using diligence and energy in collecting contract payments from the settlers when they fall due. I believe the great majority of the settlers are anxious to meet these obligations promptly. However, as in the administration of other industries, the equities of the case should be considered. This means that allowance should be made in cases where the government has failed to live up to its agreements with the settlers because of certain unforeseen conditions which have been found to exist, and also because of the abnormal and depressed economic conditions the agricultural and livestock raising industries have experienced on these projects as well as in other sec-

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tions of the country during the last few years.

Consideration should be given to the great numbers of settlers on these projects who have suffered hardship and loss in developing them under the most trying and difficult conditions.

The American people can well be proud of the results accomplished by Federal reclamation. It has created new wealth—over three times the amount of the government's investment, the bulk of which will be repaid to the government. It is financed from a special revolving fund from the resources of the western states, and not from taxes from the people. It has transformed the barren desert into thrifty and happy

farms. It has created an immense new and profitable market for eastern manufactured and other products. It has broadened the market for corn products of the Middle-West by furnishing feeder cattle to consume it. It is yearly furnishing millions of dollars in taxes to the states and the Federal government. It is furnishing the country with millions of dollars worth of long staple cotton annually, which otherwise would come from Egypt, also millions of dollars worth of other high-class agricultural and livestock products which contribute to the welfare and happiness of the American people, and which are not competitive with those from other sections of the country.

"Best Way to Minimize Danger of Coal Strikes"

John Hays Hammond, Who Headed Government's Coal Commission, Reviews the Coal Situation: Publication of Report to Get Facts for Which Cost \$600,000, Long Delayed. Neither Side Eager for Publication. No Power to Compel Settlement.

THE best way to minimize the danger of strikes and to insure the delivery of the right kind of coal, and at the right price to the consumer, is through the adoption by Congress of the United States Coal Commission's report of Sept. 23, 1923," says John Hays Hammond, chairman of that Commission.

At a cost of over \$600,000 to the government the Coal Commission, it will be recalled, investigated the problems of the industry, its investigations extending over a period of a year, and its voluminous report treated in detail every phase of the industry, but despite the recommendation of President Coolidge Congress delayed the publication of the report until a few weeks ago. Copies of the document may now be obtained from the U. S. Government Printing Office.

Mr. Hammond thus summarizes the findings of the Commission and incidentally suggests ways helpful in the immediate solution of the individual problem:

"In its report," says Mr. Hammond, "the commission expressed the belief that the fact-finding service it rendered should be placed on a permanent and well coordinated basis. For this purpose it recommended the creation of a Special Division under the Interstate Commerce Commission. It was its opinion that the moral influence exerted through publicity is an important safeguard of the interest of the public.

Publicity Would Deter the Unscrupulous

PUBLICITY as to the quality of coal in interstate commerce would greatly deter unscrupulous operators and dealers from the sale of fireproof, adulterated and otherwise unsuitable coal. Publicity as to the cost and profits of the operators, transportation charges, the profits of wholesalers and retailers would enable the consumer to judge

whether a fair or an exorbitant price is being charged for his coal. Publicity as to earnings, living conditions, and living costs of the miners would enable the public to form a judgment as to the equities of disputes between operators and miners over the renewal of wage agreements; and informed public opinion at such times would exert deterrent influence upon the adoption of an unreasonable attitude by either or by both parties to the controversy and thus tend to prevent a lockout or a strike.

"All these facts change from season to season and vary from district to district

and 1923 had been settled and coal was again available.

"The anthracite operators and the anthracite miners were for obvious reasons not particularly eager to have the report printed and circulated. The result is, that no legislation has been enacted which would give the President of the United States any constitutional warrant to intervene in this emergency. It has been suggested that the President offer his services as mediator to settle the strike. Any efforts at mediation the President might have made would have been without avail and might

have been a disservice. This is evidenced by the failure of the Governor of Pennsylvania to secure through his mediation the resumption of mining operations.

"In order clearly to comprehend the coal situation it is essential to understand wherein the anthracite differs from the bituminous industry. Therefore I must ask the indulgence of those already familiar with the subject.

"There are two kinds of problems in the coal industry:

one relates to anthracite or hard coal, the other to bituminous or soft coal. The problems respectively are radically different.

"The known deposits of anthracite for commercial importance for present consideration at least are confined to an area of about 500 square miles in eastern Pennsylvania. The anthracite mines supply annually about 90,000,000 short tons; about 70 per cent of this tonnage is used for domestic purposes, the rest in industry. Eight interests furnish 75 per cent of the total output, and control 90 per cent of the unmined coal; therefore in respect of its geographical limitation and the administration of operations the anthracite industry partakes of the nature of a monopoly.

"It is important to note having regard to anthracite as a fuel that there is a tendency toward an increased cost of production and consequent higher prices of hard coal in the near future, owing to the



A string of coal cars 265 miles long would be necessary to transport the daily output of the soft coal mines. This view shows only 3000 cars of bituminous awaiting shipment at the Ashtabula Harbor yards in Ohio.

and from mine to mine, and the public is entitled to know them since the transportation of coal in interstate commerce is so affected by the public use and coal enters so intimately into all the necessities and conveniences of modern life—indeed being outranked in importance only by food and water—that there is no longer any private right to secrecy as to such matters as costs, profits, wage rates and working and living conditions in the industry.

"This report has only just been made available for the public. Copies can be obtained from the United States Government Printing Office or upon application to a member of Congress. The President of the United States transmitted this report to Congress with his recommendation that it should be the basis of appropriate legislation. Congress unfortunately has thus far ignored the report. The public, as is its wont, was apathetic after the strikes of 1922

rapid exhaustion of the more cheaply of mined beds of coal from which the present supply is largely derived.

"Bituminous coal is mined on a commercial scale in twenty-five different states of the union, the annual production of which averages about 500,000,000 tons, coming from 12,000 producing companies contrasted with the 170 companies that furnish the anthracite output. This comparison further emphasizes the monopolistic feature of the anthracite industry.

"The magnitude of the bituminous industry may be realized from the statement that 265 miles of coal cars with a capacity of fifty tons each are required to transport the daily output of the soft coal mines. This industry is characterized by a great over-development, the capacity of the mines being estimated at 40 per cent more than the normal market demand for coal and the number of miners between 170,000 and 200,000 more than required to provide the present output. The heavy financial burden of maintaining the excess mine capacity and excess labor force is passed ultimately to the consumer in the form of higher production cost and higher prices. It is equivalent to the cost of maintaining in idleness 200,000,000 tons of mine capacity and 170,000 to 200,000 miners.

"The bituminous industry is uneconomically organized and functions badly. Under normal conditions the industry as a whole is not profitable and the majority of the producers are compelled to recoup the losses incurred during such periods by demanding exorbitant prices for coal at times of acute shortage incident to the suspension of mining operations. The reorganization and stabilization of the industry will be one of the problems which Congress will have to tackle in the interest of both the industry and the public.

"The anthracite fields are thoroughly unionized. This is another link in the chain of monopoly which dominates in the industry. In the bituminous fields, however, large areas are non-union.

The Jacksonville Agreement

"THERE is much discussion of the Jacksonville agreement. This agreement between the bituminous operators and the United Mine Workers in the unionized districts was effected in 1924. Mr. Lewis, president of the United Mine Workers, has endeavored to fix responsibility for the Jacksonville agreement upon Mr. Hoover, the Secretary of Commerce, and to create in the minds of the public a moral responsibility of the government to enforce the Jacksonville agreement. The facts of the matter are, that Mr. Hoover was not responsible for the precise terms of the Jacksonville agreement. That agreement was a private contract voluntarily entered into by the two parties at interest. What Mr. Hoover did was simply to use his good offices, when solicited, to bring the operators and miners together for a conference and to urge that they reach some kind of agreement that would bring peace to the industry for a period of years.

"The base wage rate was established at \$7.50 per day. Under this wage rate the unionized districts are unable to compete with those of the non-union fields and as

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a consequence a great number of unionized mines have been compelled to shut down or to work under a new wage scale which though in contravention of the Jacksonville agreement has in many cases been accepted by the union employees. Some of the larger companies that signed the Jacksonville agreement have reduced the wages and are trying to operate in defiance of the union, a breach of contract of which I do not approve.

"The result of the closing of mines in the unionized sections has been an influx of miners into the non-union districts and the expansion of mining operations in South West Virginia and Kentucky.

"Today 65 per cent of bituminous coal is produced by non-union companies as against 35 per cent in the unionized mines, whereas, only three years ago these figures were reversed. There is no danger of the creation of a monopoly in the bituminous industry either on the part of operators or of the miners union. For this reason, if for no other, the use of bituminous coal for domestic purposes is deserving of consideration.

"ANOTHER argument in favor of bituminous coal is the much lower price at which it can be bought. It is estimated

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that in the case of New England a saving of about \$70,000,000 yearly can be effected by the use of bituminous coal instead of anthracite for domestic purposes.



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"Compared with the bituminous, the anthracite industry is far better organized and better stabilized. There is greater regularity of operation of the mines, the absence of ruinous competition, no excess of miners—indeed, a shortage of miners at times—and greater continuity of employment. During the past six years, except for periods of strikes, the average number of days worked in the anthracite mines was 271, out of a possible working year of 308 days, allowing for holidays, etc. In the case of bituminous mines the average working days were only about 214.

"The output of anthracite has been so regulated by the operators as to prevent over-development and ruinous competition in the sale of the coal. As a matter of fact, the amount of anthracite produced during the past 15 years has been practically stationary while the anthracite consuming section has increased over 20 per cent in population. Economic rather than physical conditions have determined the policy in this regard.

"Another advantage enjoyed by the anthracite industry is better transportation facilities. There is no car shortage, which frequently obtains in the bituminous industry at time of peak demands.

Half the Homes Heated by Bituminous

"THE quality and the use of anthracite coal differs materially from that of bituminous. Over 60 per cent of the 90,000,000 net tons of anthracite yearly produced is

used for domestic purposes, including heating of hotels, apartments and offices, while only about 10 per cent of the bituminous production is thus used, but the tonnage of domestic bituminous coal used is, however, about the same as that of anthracite, that is to say, about one-half of the homes of the country are heated by bituminous coal. This coal is the coal of commerce, 90 per cent being consumed by railroads, industries, and public utilities. The economic life of the nation depends upon its supply of soft coal.

"Now as to the respective qualities of soft and hard coal for domestic consumption. The well known superiority of anthracite lies in its ease in firing, its cleanliness and freedom from smoke. Soft coal has been regarded as a particularly dirty and smoky fuel. The explanation is, that the wrong kind of bituminous coal has been used, and by people inexperienced in its use, but by selecting the proper quality of bituminous, that is, low volatile or so-called smokeless coal, and by a little instruction as to how to burn it, the objectionable features of soft coal can be entirely eliminated.

"Smoke from the burning of coal indicates incomplete combustion and waste of heat units of the coal. Proper regulation of the draft of the furnaces can eliminate the nuisance of smoke and soot. Should, however, soot accumulate it can be readily removed from the heating surface by throwing in two or three handfuls of thoroughly dried common salt upon a substantial body of hot fuel two or three times a month. Zinc scraps may be used instead of salt for this purpose.

"On the other hand bituminous coal possesses over anthracite two important advantages. First, in its greater number of heat units, and second, in its smaller ash content.

"Coke is a good domestic fuel. It burns with a smokeless flame. By using the smaller steam size of anthracite, that is, buckwheat with coke, the fire may be easily kept about the same period as a fire of domestic size anthracite.

"The statement by John L. Lewis that there is danger of asphyxiation in the use of soft coal for domestic purposes is altogether erroneous.

No Power to Compel Settlement

"WE have no reason to hope for coal legislation of a regulatory character by the present Congress that will be of benefit in the future. This legislation should be effective without being radical. I do not believe that there will be any serious attempt to nationalize the mines. The purchase of the properties by the government would involve an outlay of several billions of dollars which in itself is prohibitive. Moreover, the operation of the mines by the government would result in far higher cost of production, and consequent higher prices to the consumer, and there would be an undoubted tendency to increase rather than to decrease the frequency of strikes owing to the inevitable injection of politics into the administration of the industry.

"The United States Coal Commission, after an exhaustive study of the question of nationalization, unanimously decided

against this policy. Instead, the Commission recommended a law providing for supervision of the coal industry by the Interstate Commerce Commission with publicity of all the basic facts, including the accounts. In an emergency the proposed division would be ready to act as Federal fuel distributor and subject to the direction of the President of the United States, as the agency to deal with transportation and distribution in such a way as the emergency may require.

"The use of substitutes, during this winter, is the best means of compelling the anthracite industry to recognize its obligation to the public to provide an uninterrupted supply of hard coal at a reasonable price."

Judging Business

(Continued from page 546)

buying power at home. It would be good if we could bear in mind always that the purchasing power of every country is in its own powers of production. People buy with what they sell, and the highest state of prosperity for every country is to be had when other countries are prosperous. Prosperity does not consist in having good times at the cost of other peoples, but in great production and great consumption everywhere—a balanced state of industry in which we exchange goods profitably with each other.

That is the way it ought to be and that is the way it is. The economic law and the moral law are always in harmony.

A serious state of business depression never comes unless there has been first a period of inflation both in credit and in prices. You have got to have a strained banking condition, a strained credit condition before you can have the deflation which brings on industrial depression and hard times. There is no such state of inflation at this time as might bring on a crisis. There are no signs of it; nothing of the kind is impending. The skies are clear so far as that is concerned.

A Hand on the Brakes

THERE has been a rise in the stock market, but nothing that menaces the business situation. There has been land and town lot speculation in some localities, there is talk of overbuilding in some localities. These are conditions which always develop in times of prosperity and they are conditions to take account of. What brings most of our periods of prosperity to an end is the tendency of our people to discount the future too freely, to go into debt too deeply, to pledge their future incomes too far ahead. There are, I say, some signs of this, and they will bear watching, but I do not think the banks are seriously involved. On the contrary, there is today a great reserve of lending power in the banking system, particularly in the Reserve banks, and I think the Reserve banks mean to hold on to it, against a time of need. If they do, we will not have any serious crisis, for a crisis that is guarded against does not come. The action of the Reserve banks recently in raising their discount rates, in my opinion, has that significance. The money situation is not tight, but in view of the expansion

of credit that has taken place in the last six months, the Reserve banks are justified in their action. It is noticeable that there is a hand on the brakes, but it is not a menace to the business situation.

Will Income Increase?

EVEN after allowing for normal growth, the volume of business in 1925 was greater than for any year since the war. Big production and large profits usually go hand in hand.

The average net income of those reporting to the government for tax purposes for 1924 was \$3,428. Will the new returns show a greater material prosperity? Incidentally there were 74 incomes for that year in excess of a million dollars. Ten individuals reported incomes of more than three million dollars each.

In all 7,298,481 persons filed returns. They reported that \$2,462,420,321 had been received from interest on bonds, notes, etc., and \$3,207,181,311 from dividends.

The bulk of incomes ranges from \$1,000 to \$3,000 annually, the returns show. There were 4,659,356 individuals who did not have more than \$3,000 annually. A total of 1,051,346 reported incomes from \$3,000 to \$4,000.

Roughly one-seventh of those paying federal income taxes succeeded in making more than \$5,000 a year. The government's statistics show that only one person in every fifteen reported an income of more than \$1,000 a year.

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Coolidge Half-Dollar

(Continued from page 560)

tors, architects and artists are on the board which passes on the artistic features of the models which are many times the size of the coin. The final approval of the Secretary of the Treasury is necessary before the mints can start on the production of the money from the designs.

When the first news of a special coin reaches the public, there is generally a large number of inquiries at the Treasury and at the banks as to how the issues may be obtained. The government does not sell the coins direct to the public but turns them over to a distributing agent, which is named in the law authorizing the minting of them.

There are eleven special coins that are still being offered for sale to the general public.

The coins and their distributing agents are as follows:

Pilgrim half dollar—National Shawmut Bank, Boston, Mass.

Maine half dollar—State Treasurer, Augusta, Me.

Alabama half dollar—First National Bank, Birmingham, Ala.

Missouri half dollar—Sedalia Bank and Trust Company, Sedalia, Mo.

Monroe half dollar—Los Angeles Clearing House, Los Angeles, Cal.

Grant memorial coins—The United States Grant Memorial Centennial Association, 1012 Traction Building, Cincinnati, Ohio.

Huguenot-Walloon half dollar—Fifth National Bank, New York City.

Stone Mountain half dollar—Stone Mountain Confederate Monumental Association, Hurd Building, Atlanta, Ga.

Lexington-Concord half dollar—Concord National Bank, Concord, Mass. Lexington Trust Co., Lexington, Mass.

Fort Vancouver half dollars—Fort Vancouver Centennial Corporation, Fort Vancouver, Wash.

California half dollar—Citizens Committee, California's Diamond Jubilee, Merchants Exchange Building, San Francisco, Cal.

Debt Settlements

(Continued from page 552)

Pittsburgh. He visualized the debt problem precisely as he would the liquidation of a bank, a railroad, a manufacturing plant. It is not what the creditors desire or demand but what it is possible to obtain for them out of the reorganization of an insolvent organization.

The more Mr. Mellon pondered the experiences of himself and other commercial leaders the stronger grew his conviction that the same rule would have to be applied to adjustments by America with her creditors.

Mellon's Sound Views

MR. MELLON has had much to say about debts at one time or another. Never has he stated his theory of collection with greater clarity than to the Committee on Ways and Means of the House.

"No nation," he said, "except by the pressure of public opinion and the necessities of its own credit, can be compelled to pay a debt to another nation. An insistence on a funding agreement in excess of the capacity to pay would justify it in refusing to make any settlement. None can do the impossible. If the debtor is able to pay and if the creditor is to receive anything, a settlement fair to both countries is essential. It follows that those who insist upon impossible terms are, in the final analysis, working for an entire repudiation of the debts. The only other alternative which they might urge is that the United States goes to war to collect."

Mr. Mellon was impressed by the conclusions of some of the ablest of the war-time statesmen of Europe. Francesco Nitti, post-war Premier of Italy, coined a phrase which struck a responsive echo in the chancelleries of Europe. In his description of "The Wreck of Europe" he dismissed the war debts of the Allies to the United States with the phrase: "The debts will never be cancelled nor collected." Mr. Mellon rejected the theory of cancellation as untenable with every code of honor among nations. He set about to lay the groundwork for collection.

To understand the problem as it came to Congress at the outset of 1926, almost ten years since the Treasury loans were made to the nations of Europe, it must be kept in mind that the original statute establishing a World War Debt Commission prescribed amortization and interest charges which if insisted upon never could have been met by any European country, the British Empire not excepted. That was the political approach to the problem. The act was passed, and was approved by President Harding. There was not the slightest doubt on Capitol Hill that the Debt Commission could return in a short time with agreements, supported by collateral, on that basis.

The Business Plan Adopted

CONGRESS had refused flatly to adopt the draft of a bill to give the Secretary of the Treasury what amounted to a free hand to negotiate the best terms possible for settlements. The British settlement,

which is recognized everywhere, notably among the income taxpayers of England, as an excellent bargain for America, exploded the Congressional—the political—theory of funding the war debts.

In the winter of the Senate's surface discontent over the Mellon settlements with Italy, Belgium and minor powers of the Continent, the predominant view in Washington is that spring can't be far behind with respect to an understanding with France. There will be an agreement with France. Congress and the Chamber will approve it. Washington is certain about that.

The outcome of the negotiations with France is the story of what has happened when debt settlements have been attempted according to the rule of politics. Senators will "hit the front page" of an estimable newspaper through their application of that identical theory to the settlements with Italy, Belgium and the others. It sounds plausible and intensely patriotic. Its one great weakness is that it will not work. Mr. Mellon has tried both plans. He is agreeable to a little political abuse on Capitol Hill during the early days of 1926, because he is content to believe that when some of his critics shall have passed from the Senate forum his policies will be indorsed, his foresight commended to his successors in the Treasury Building.

High Court

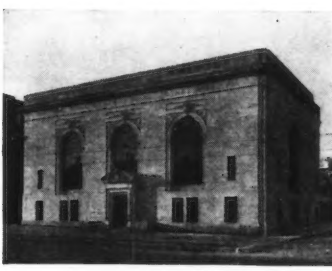
(Continued from page 551)

see that the goods are properly classified and the value is not too low. It has a powerful club to brandish over the importer's head to make him careful—for, if it is found that the goods have been undervalued, additional duties beyond those that are ordinarily assessed must be levied.

If the collector of customs assesses the goods too much—according to the view of the importer—he can call for a reappraisal. If this is unsatisfactory, an appeal can be taken to the Board of General Appraisers.

This board is composed of nine men appointed for life, who are the government's highest experts on the values of all commodities. It is divided into three parts of three general appraisers so that each group may specialize on certain schedules. A hearing may be had, at which time the facts concerning the dispute as to classification or value are set forth by representatives of the importer and the collector. On values, the judgment of the Board of General Appraisers is final but the importer can take the question of classification to the United States Court of Customs Appeals, whose judgments and decrees are final on all appealable questions as to the laws and regulations governing the collection of customs revenues.

Only three types of cases can be taken to the Supreme Court—those that involve the construction of the Constitution, those that involve a Treaty or those that the Attorney General of the United States deems of sufficient importance to file a certificate of importance on before the Customs Court has rendered its formal decision. These certificates are filed sparingly but enable either the government or the importer



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to have the case carried up to the highest tribunal.

Virtually a Final Arbiter

HOW near the Customs Court comes to being the final arbiter in all cases affecting imports may be indicated by the record which shows that the Supreme Court has taken up for review only seven out of 2715 cases decided by the Customs Court. Unsuccessful efforts have been made to get the highest court to grant writs that would have resulted in the review of thirteen cases.

One of the seven cases is now pending before the Supreme Court. It is one of the most important that has been passed on. Under the Underwood Tariff bill, wool was free. When the Harding administration came into power, it determined to put a protective tariff into effect, but pending the framing of the permanent law it adopted the emergency tariff act to give immediate protection to the agricultural industry. "Clothing" wool became dutiable at rates of fifteen, thirty and forty cents a pound, the different rates representing the tax on unwashed, washed and scoured varieties. When it came to collecting duties on wool, the government insisted that both "clothing" and "combing" wool should be dutiable at the specified rates because both of them entered into the making of woollen clothes. The importers dissented from this view, pointing out that clothing wool and combing wool were recognized by the trade as being two different commodities and that Congress meant exactly what it said when it declared that clothing wool was dutiable and was silent as to combing wool.

The customs service overruled this protest and kept the duty paid by the importers on combing wool as well as clothing wool, so the case was appealed. The U. S. Court of Customs Appeals upheld the importers but the Treasury carried the case to the Supreme Court. Estimates of the amount

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of revenue at stake have run above \$10,000,000 but more reliable figures indicate that the government may have to turn back about \$3,000,000, unless the highest tribunal reverses the Customs Court.

It is unusual for the Customs Court to have to decide one case that runs into such large totals but a decision in one seemingly small case may run into a sizable sum. Frequently a single test case is filed that may sweep away thousands of protests that are filed by the ever-zealous importers. Just such a case was the one (carried to the Supreme Court) which questioned the power of the Customs Court to remit the additional duties, which are exacted when the importers are found to have undervalued

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their products. The Treasury Department said that the court lacked this power but lost the decision when it was placed before the court of last appeal.

The First Big Case

THE first time that the Customs Court figured largely in the news followed close upon the adoption of the Underwood low tariff bill, which provided that when goods were imported in ships of American registry a 5 per cent lower duty should be charged. This discriminatory duty arrangement was designed to aid the American merchant marine. This raised a cry that the commercial treaties of foreign countries, in which foreign powers were promised "most favored nation" treatment, were being violated. The Customs Court held that if a discriminatory duty were allowed on goods imported on American-flag ships the same preferential rate would have to be granted to the merchantmen of countries having "most favored nation" treaties. The Supreme Court declared that the United States would have to abrogate its treaties before it could introduce such a national policy, and the preferential rates were thus made null and void.

The establishment of the Customs Court has brought about a uniformity of ruling and a record of dispatch that are remarkable when compared with the old order when appeals from customs decisions were tried in almost every circuit court in the United States. The average time of disposing of a contested customs case has been reduced from six years to six months and a set of twelve books contains all of the rulings on the hundreds of customs cases that have been passed on. In the old days, there were frequently two different holdings in the circuit courts on the very same case.

The rules of the court are drawn to speed up the procedure. The judges base their decisions on the record of facts previously adduced before the Board of General Appraisers and limit the final argument on either side to one hour, after the contentions have been fully covered in briefs previously laid before the court. If the court's decree authorizes the remission of any duties, there is no delay for Congress has given the Treasury an indefinite appropriation to pay off its awards. What a contrast this is to the U. S. Court of Claims where, even after a person has been awarded

a judgment against the government, a special bill must be introduced in Congress and payment ordered by the formal action of the House and the Senate! This frequently takes years.

New Articles to Assess

THERE is perhaps no law which is subject more to personal interpretation than the customs law because the world is striding along. Every week sees the creation of some new article or commodity somewhere in the world that is later transported to the ports of entry to be classified and appraised. After the United States adopts a new tariff law, the ingenuity of the foreign manufacturers comes into play to devise a product that, while just about the same as another commodity which is highly taxed, will be subject to a much lower duty. Fine distinctions must be drawn to see that the ruling is just to all interests.

Another factor has been the change in the national policy and the revision of the administrative provisions in the acts. Whenever there is a change in political administration, there is generally a change in the tariff policy. Within recent years, the country has had an emergency tariff. Now it has a flexible tariff, multiplying the customs problems in various ways. During 1925, the value of imports was about \$4,500,000,000 and the customs on this merchandise amounted to about \$500,000,000. This little known group of five men, appointed by the President for life tenure, sat as the final arbiters in deciding the duties that are to be paid into the national Treasury.

The Mechanism

(Continued from page 555)

ratio in response to increases in note circulation and deposits, and in 1919 and 1920 to gold exports, was an important factor in increases in rates.

Then as gold poured into the country in 1921 and 1922 as a result of disorganized world monetary conditions, and the reserve ratio rose by leaps, it lost its significance as a guide to discount policy. Since that time rates have been increased and decreased, without any very close relation to the movement of the reserve ratio.

But after the reserve ratio has been set aside, for the present at least, as a guide for rate policy, there still remain other semi-mechanical aids to rate policy which remove decisions from the realm of abstract reasoning.

One of the best of such aids is the test of application, the test of experiment, does it work smoothly? A generally accepted theory of the use of Reserve Bank credit is that member banks should borrow to meet seasonal or unusual needs of their customers and that they should not borrow to buy securities or to reloan at a profit in the money market. From this point of view the problem is to find the discount rate at which banks will borrow freely to meet the genuine seasonal or emergency needs of agriculture and business, but will not borrow for other purposes. The test of the rate level is found in experience, in what actually takes place when the rate is in effect.

Another guide is the changes of open market interest rates relative to the discount rate. The statistical record shows that the discount rate of the New York bank has tended to settle between the open market rate for commercial paper and that for ninety-day bankers' acceptances or Treasury certificates. Diagram 1 shows the record for some years past. The relationships shown in this diagram are followed by Reserve Bank directors from week to week.

This position of the discount rate probably reflects more largely the finding of such a rate level by experiment and experience, than any conscious effort. Experience has seemed to show that a rate between the bill and commercial paper rates has been an effective rate at which banks generally borrowed for genuine seasonable or emergency needs, but did not borrow to reloan at a profit.

There are other tests of rates less definite in their indication and involving more judgment. At times production, or employment, or the trend of prices, or the marketing of crops, in relation to the volume of credit, may provide some indication for discount action. On all these matters definite statistical evidence is now available and is currently presented to the Federal Reserve Board and the directors of the Federal Reserve Banks. But a discussion of the bearing of all these data on discount policy would carry us outside the scope of this article. It is the purpose here to point out that discount rate decisions are not abstract and academic. In making such decisions the Reserve Banks and the Reserve Board have before them a wealth of evidence of all types, and this evidence includes a number of indicators which are very practical in their nature.

Open Market Transactions

PERHAPS equally important with discount rate decisions are decisions as to purchases and sales of government securities in the open market. Loans to member banks and purchases of bankers' acceptances are made on the initiative of borrowing banks or bill dealers. It is ordinarily only in transactions in United States government securities that the Reserve Banks take the initiative themselves.

The usual results of purchases or sales of government securities by the Reserve Banks were described as follows in the 1924 annual report of the Federal Reserve Bank of New York.

"When a Reserve Bank buys securities it pays the bank or dealer from whom the purchase is made with a Federal Reserve check. This check, deposited with a member bank and by it redeposited with the Reserve Bank, increases the member bank's reserve. If the member bank is in debt at the Federal Reserve Bank the increase in its reserve is usually applied to reducing its indebtedness. The usual effect of open market purchases by the Federal Reserve Banks is a prompt decline in the amount of direct loans to member banks. If the member bank receiving the Federal Reserve check is not borrowing at the Reserve Bank it endeavors to lend or invest the funds, and in one way or another they eventually reach some bank which is borrowing. As their indebtedness at the Reserve Bank is diminished, banks find themselves in a position to extend credit more freely and money rates tend to become easier. Just as the purchase of securities usually operates to relieve member banks from their indebtedness at the Reserve Banks, so, on the other hand, the sale of securities tends to increase the indebtedness of member banks at the Reserve Banks and thus to bring them under the influence of discount rate, thereby increasing the effectiveness of that rate."

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Since the results of buying or selling securities are usually immediately observable in increases or decreases in loans to member banks, they are operations in which policy is at all times tested immediately. The close relation between purchases and sales of government securities and loans to member banks is shown in diagram 5.

Not only is there a constant mechanical test of the result of transactions in securities, but the result of such transactions provides a test of the need for the volume of Reserve Bank credit outstanding. To quote the annual report of the Federal Reserve Board for 1923: "The extent to which member banks borrow in order to replace the funds withdrawn by the Reserve Banks through the sale of securities is a measure of the demand for Reserve Bank credit." If there were an excess amount of credit outstanding the market would be able to absorb securities sold by the Reserve Bank without any additional borrowing at the Reserve Bank by member banks. But if the member banks promptly borrow an amount about equal to the amount of securities sold, it would appear to be some indication that there was little excess Federal Reserve credit in use.

Tests of this sort, in addition to those referred to previously, remove Federal Reserve policy from the abstract to the practical.

Our Production

ACCORDING to the Federation of British Industries, which made a study of the resources and productive capacity of the United States, this country produces more than half of the world's total output of petroleum, copper, pig iron, steel ingots and castings, cotton, lumber, automobiles, telephones and telegraphs. It has 33.9 per cent of the railroad mileage and consumes 70.9 per cent of the supply of rubber. Its wheat production is 21.3 per cent of the world's harvest.

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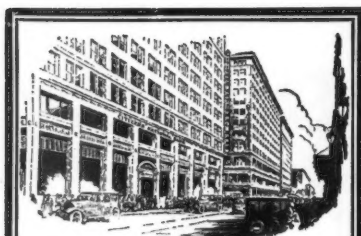
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- 3.—The obligations of companies whose business consists of financing the basic industry of the United States.
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Credit Files for Country Banks

By M. H. MALOTT

President, Citizens Bank, Abilene, Kansas

THE slogan, "A credit file on every borrower with unsecured loans of \$500 or more" was unanimously adopted by the Executive Committee of the State Bank Division of the American Bankers Association, at its mid-winter meeting held recently in New Orleans.

The Division will recommend it to the bank supervisors and commissioners of the various states for action, and pledges the hearty cooperation of the state bank members in putting it into operation. It is similar to a ruling promulgated by the Comptroller of the Currency to govern national banks, and tends toward better and more efficient banking.

THE country banker will admit the need of a credit file at the moment he is imbued with the subject, and intends to carry it to a conclusion; but, a survey, if it were made, would clearly indicate that only a small percentage of the state bankers have complete information concerning the financial standing of their borrowers. Duplication of loans will be materially reduced, if not entirely eliminated—assets will be more liquid—and the banks immeasurably strengthened. Credit lines will be curtailed in some instances and extended in others, to the mutual benefit of both the bank and its customer.

It prepares the ground and paves the way for the organization of County Clearing House Associations which are now functioning most successfully in several of the agricultural and mining communities.

The country banker feels he is in closer touch with his patrons than does the city banker; that he knows their condition better, but does he? In a middle-west state, there the bank commissioner has ruled that there must be a credit file on every unsecured loan of \$500 or more, a banker in a county-seat town had a request from a farmer for a loan of \$600. The applicant for more than twenty-five years had an open credit line of this amount, and his paper was considered as "good as gold."

In filling out the financial statement, however, it was disclosed that he owed a bank in a neighboring town \$900 and in another \$500. He owned a good farm of 160 acres, worth \$15,000, but exempt against attachment or judgment under the statutes of the state. The banker suggested that he refund his indebtedness by placing a \$2,000 mortgage on his real estate for five years at a less rate of interest than charged on short paper, calling his attention to his inability to meet his obligations out of one year's crops. The farmer readily agreed and the bank, through its real estate mortgage department, secured a choice loan instead of taking on a frozen asset in its commercial department, and the farmer was given the relief he most needed.

IN Kansas, Roy L. Bone, the present Bank Commissioner, after a few months in office during which he had interviewed officers of many of the country banks, and had

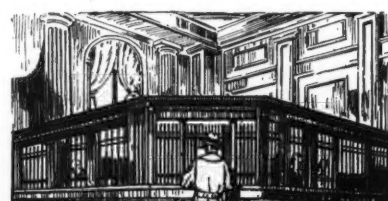
gone over their statements with them, became convinced that some of their trouble was due to the fact that they were not as familiar with the financial responsibility of their borrowers as they should be. He found that very few of them kept any kind of a credit file and a great many of them were making loans on what they thought they knew about the borrower.

Immediately he sent out a general requirement to all of the state banks in Kansas, suggesting that, where they were not already doing so, they obtain a financial statement to support all unsecured loans of \$500 or more. There was some little opposition to this, but it developed among those who really did not understand it.

The Bank Commissioner spoke at each one of the nine group meetings of the Kansas Bankers Association last October and took particular pains to stress the need for financial statements. After he had presented the matter to them, the bankers seemed to understand more clearly what he had in mind and their response to his suggestion has been most gratifying. The examiners report that all of the bankers are now securing financial statements and keeping credit files and are very much pleased with the results obtained, and, in their opinion, many failures would have been averted had this ruling been in operation during the past three years. The importance of having the statement signed by the borrowers is obvious, and it should never be merely in the form of a memorandum unsupported by signature.

A WELL managed country bank should carry approximately twenty per cent of its deposits in a secondary reserve, consisting of commercial paper and high grade marketable bonds. Check on the paper and bonds should invariably be made, and it is usually done through the city correspondent and other channels, during the ten day option given in the purchase of the securities. The information secured is based not only on the reputation of the makers of the paper, or bonds, but largely on what the credit files disclose. Is it not equally as important for the country banker to have such a file in his own institution, covering the local borrowers whose paper is in his note case?

The slogan should be adopted by every banker throughout the nation, and the inevitable result will be sound, sane and safe banking, bringing inestimable benefit to the people as a whole.



Rubber Inquiry

(Continued from page 549)

dustry, to become more generally and clearly comprehended.

There has been no concerted opposition to the resolution and the inquiry has met with no avowed objection of any kind, but there has been running through Congress and through many newspapers an undercurrent of fault-finding comment, and explanations of the situation have been offered that do not in fact explain anything. Some who would not be averse to making political capital of it have even suggested that in some way or other our tariff laws are responsible for the situation, the attempted explanation being that the action of Great Britain has been prompted by a spirit of retaliation against our tariff laws. No constructive proposals have been made in this direction, and the only inference as to any possible remedy along this line is that opponents of our protective tariff system would like to see our customs laws repealed and our home markets for articles produced in this country turned over to foreigners in the hope that foreign countries would be so grateful to us for this boon that they would generously supply our rubber needs at a reasonable price. It is doubtful whether many people in this country are ready to approve so drastic a remedy.

Others have criticized our government for its action or inaction, and our business men for their short-sightedness, in not providing for an adequate rubber supply. Admitting that mistakes have been made in our legislation for the Philippines so that hope for rubber production in those islands has been indefinitely deferred, and admitting that our business men should have had better vision, it is not enough to sit down and discuss these as academic questions. These critics usually stop when they have pointed out what the situation might have been if a different course had been pursued. It is not enough to point out what the present situation is or even to explain why it is as it is. We cannot afford to fold our arms and content ourselves with bewailing the fact that some of our statesmen and some of our business men of yester-year have lacked in wisdom or failed in vision. We are living in the today with the duty and responsibility of working for tomorrow as well as for today. Using the experience of the past as a guide to the future we should "let the dead past bury its dead," and squarely face the facts as we find them in an effort to solve the problems confronting us now.

What Is to be Gained by Investigation

THE rubber inquiry has already accomplished good by focusing the attention of the people of this country, of Great Britain and the rest of the world upon the real situation. If it has accomplished nothing else it will cause the people of this country to realize the mistakes of yesterday, and realizing them to undertake the task of correcting them by seeking a remedy for the conditions produced by those mistakes. It is characteristic of this country that a few days ago a number of business men came

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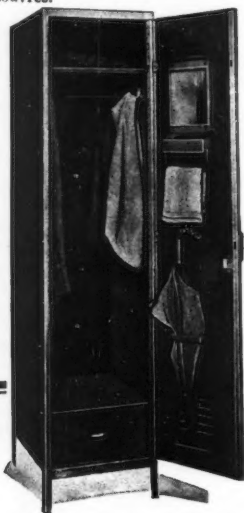
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together in New York and undertook the formation of a company with \$10,000,000 capital for the purpose of ultimately solving this very problem.

There has been at least a temporary reduction in the price of crude rubber and it is believed that the extreme high prices of a few weeks ago will not be reached again. It will ultimately make for better instead of worse business relations between Great Britain and this country. The British people have always been noted for their sense of fair play. They believe in fair play in business as in sport. The monopolistic control methods that have brought the present

situation into being have not been such as can be justified either in sound economics or in fair play.

In the end, instead of disturbing the very cordial relations now existing between the two countries, an inquiry of this nature will make for better international relations because the British public, as well as our own people, will have a clearer idea of the situation and we may safely rely upon the fact that a better understanding among fair-minded men always makes for better relations, whether those relations are international, or individual and personal in their character.

Convention Calendar

DATE	STATE	ASSOCIATION	PLACE
April 27-28	Arkansas		Hot Springs
May —	Tennessee		Knoxville
May 11-12	Mississippi		—
May 12-13	Oklahoma		Oklahoma City
May 12-13	Maryland		Atlantic City, N. J.
May 17-19	Georgia		Columbus
May 18-19	Missouri		—
May 20-21	Kansas		Wichita
May 20-22	Alabama		Montgomery
May 25-27	Texas		Galveston
May 26-28	Pennsylvania		Atlantic City, N. J.
May 26-29	California		Del Monte
June 7-9	Wisconsin		Wausau
June 11-12	Utah		Richfield
June 17-18	Illinois		Springfield
June 17-19	Virginia		Roanoke
June 18-19	Connecticut		New London
June 19	Maine		South Poland
June 21-23	Iowa		Sioux City
June 21-23	New York		Quebec, Canada
June 22	North Dakota		Grand Forks
June 25-26	Colorado		Glenwood Springs
Sept. —	Wyoming		Sheridan
—	North Carolina		Durham
—	West Virginia		Huntington
May 3-6	Spring Meeting Executive Council, A. B. A.		Pinehurst, N. C.
Oct. 4-7	A. B. A. Convention		Los Angeles, Cal.
Mar. 2-3	Officers Central States Conference, Topeka, Kan.		
June 18-19	New England Bankers		New London, Conn.

